


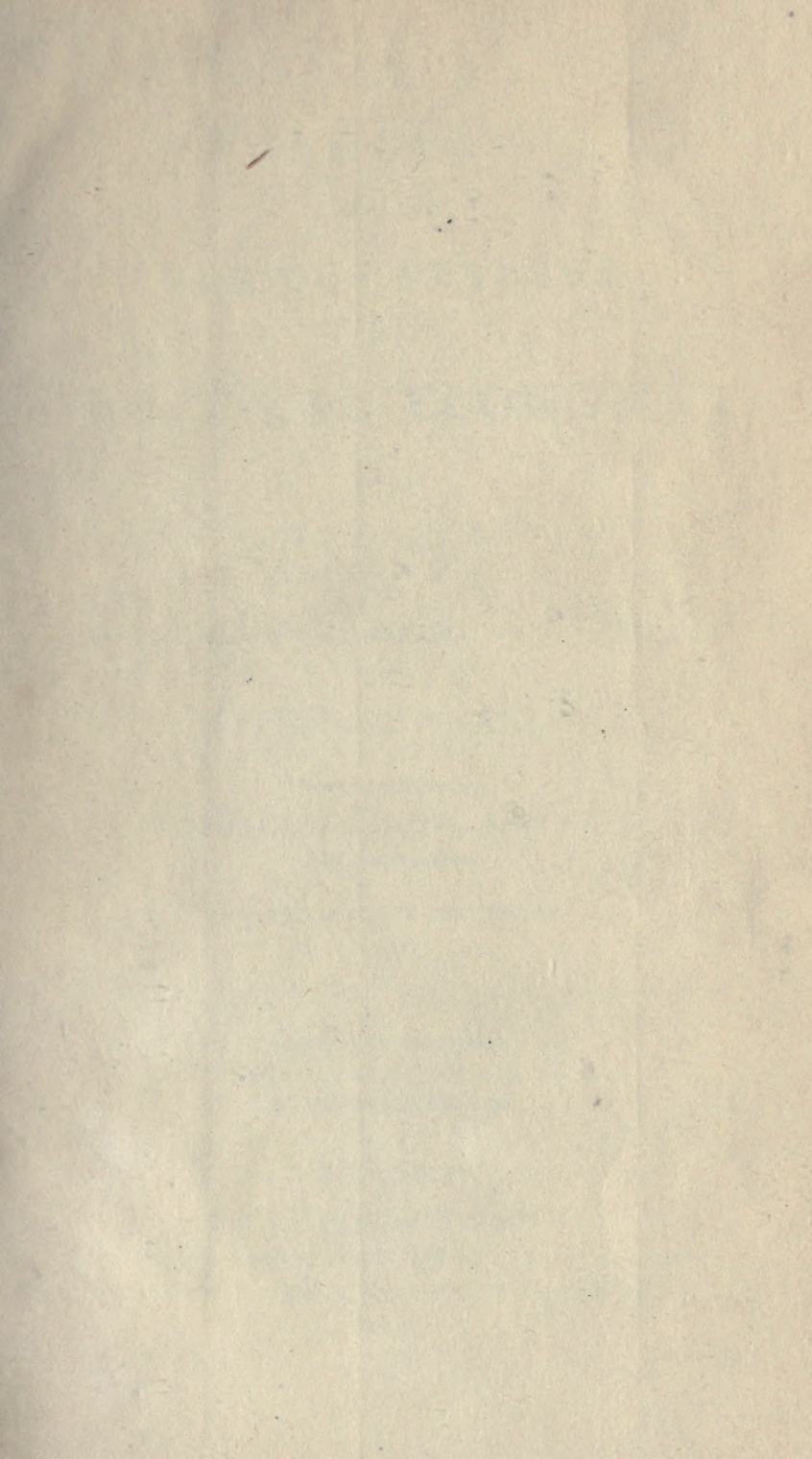


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1975

AN  
INQUIRY  
INTO THE  
VARIOUS SYSTEMS  
OF  
POLITICAL ECONOMY;  
THEIR  
ADVANTAGES AND DISADVANTAGES;  
AND  
THE THEORY MOST FAVOURABLE TO THE INCREASE  
OF  
NATIONAL WEALTH.

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BY CHARLES GANILH, ADVOCATE.

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TRANSLATED FROM THE FRENCH

BY D. BOILEAU,

Author of "An Introduction to the Study of Political Economy," &c.

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*Hanc veniam damus, petimusque vicissim.* HORACE.

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## ADVERTISEMENT.

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No study can be more attractive to a benevolent mind than that which investigates the means of providing a plentiful national income, and insuring the happiness of the individual members of the community, by enabling them to obtain the supply of their wants through the exertions of their industry. That commerce is one of the most powerful of those means has long been acknowledged in this country : but that this truth should find an able advocate in France, at a time when her ruler is bent upon destroying commerce, is a circumstance, as extraordinary as it is honourable, to the author of the *Inquiry into the various Systems of Political Economy*. The impartiality and the soundness of the views which he displays in his work give it a particular claim to the attention of the English nation ; and it is with the view to render its circulation more general, that I have attempted a translation, in which I have chiefly aimed at fidelity and perspicuity.

D. B.

Brompton Road,  
March 6th, 1812.

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London, 1812.  
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AN

## INQUIRY INTO THE VARIOUS SYSTEMS

OF

POLITICAL ECONOMY.PLAN OF THE WORK.

EVER since modern countries have reached a degree of opulence unknown to the nations of antiquity and the middle age, and particularly since Wealth has been discovered to be altogether the basis and measure of the relative and absolute power of states ; the sources whence Wealth is produced, the measures which accelerate its growth, the laws by which it is distributed and circulated, and the means of regulating its employment, increasing its abundance, and insuring its constant progress, have frequently been investigated.

This subject, known at present by the name of Political Economy, (no doubt, because it embraces individual efforts and national regulations, and blends them in one point of view,) has been amply discussed in all its bearings and applications. Several works published in England, Italy, and France,

mostly of great merit, and all of them more or less useful, have thrown considerable light upon this department of human knowledge; and, by disclosing its importance, have at length placed Political Economy in the first rank of political sciences.

But, as if the inability of ascending to general causes were the inevitable lot of man, the sources of Wealth have hitherto escaped the most laborious research. The solitary and combined efforts of the most distinguished writers among the most celebrated nations of Europe, have alike been unable to dispel the clouds in which these sources are enveloped. Opinions, arguments, and controversies, have been heaped together, which by their variety and multitude embarrass and fatigue the mind. The difficulty of choosing among them disheartens the student, and leaves him in doubt and uncertainty.

If he should wish to know wherein national wealth consists; how great will be his surprise at meeting with so many different and even contrary opinions in the most esteemed authors!

Some state the wealth of a nation to consist in the totality of the private property of its individuals\*; others, in the abundance of its commodities†.

Some distinguishing public from private wealth, assign to the former a value in use, but no value in exchange; and to the latter, an exchangeable value,

\* *Sir William Petty's Treatise on Taxes and Contributions; 1667. Gregory King's Calculation, published by Davenant. Adam Smith's Wealth of Nations, B. iv. c. 1. Dr. Beeke's Observations on the Produce of the Income-Tax.*

† *Dixme royale du Maréchal de Vauban.*



but no value in use; and make public wealth to consist in the exchangeable value of the net produce.\*

Others state wealth to consist of all the material commodities which man may use to supply a want, or to procure an enjoyment either to his sensuality, his fancy, or his vanity.†

One writer considers wealth as being the possession of a thing more desired by those who have it not, than by those who possess it.‡ Another defines wealth, whatever is superfluous.§

A modern French writer calls wealth the accumulation of superfluous labour|| : and a noble English author, who, like the French economists, distinguishes individual riches from public wealth, submits that “ the latter may be accurately defined to consist of all that man desires as useful or delightful to him ; and the former to consist of all that man desires as useful or delightful to him, which exists in a degree of scarcity.”¶

\* *Physiocratie*, p. 118. *Philosophie rurale, ou Economie générale et politique de l'Agriculture*, p. 60.

† *Essai sur la nature du Commerce*, par *Cantillon*.—*Abrégé des Principes d'Economie Politique*, par Mr. le Sénateur *Germain Garnier* ; Paris, 1796.

‡ *Ricchezza è il possesso d'alcuna cosa che sia più desiderata dal altri, che dal possessore*. Galiani della Moneta.

§ *Il superfluo costituisce la ricchezza*. Palmieri pubblica Felicità, vol. i. p. 155.

|| *Principes d'Economie Politique*, par *B.V.F. Canard*. Paris, 1801.

¶ *An Inquiry into the Nature and Origin of public Wealth*, by the *Earl of Lauderdale*. Edinb. 1804. ch. ii. p. 56, 57. But the French author, by saying, “ *qui distingue la richesse particu-*

The same uncertainty, the existence of which we deplore concerning the nature of wealth\*, prevails with regard to the means of contributing to its progress and increase.

Those who first wrote upon this important subject, being misled by appearances, assigned the precious metals obtained in return for the raw and manufactured produce exported, as the cause of the wealth of nations.†

“*lière de la richesse générale, définit la première tout ce que l’homme désire comme utile ou agréable, et la seconde tout ce que l’homme désire comme utile ou agréable, mais qui n’existe que dans un certain degré de rareté ;*” states the very reverse of what His Lordship has asserted.—T.

\* According to one German writer, National Wealth is the sum total of productive powers actually exerted in a nation. *C.D. Voss, Staatswirthschaftslehre. Erste abtheilung. Zweyter Abschnitt.* Leipz. 1798. According to another, it is the aggregate of all the property belonging to a nation, and to every one of its individual members. *L. H. Jakob. Grundsätze der National Oekonomie ;* Halle, 1805. See also page 6, of *Boileau’s Introduction to the Study of Political Economy*. The definition of public wealth, as “the surplus of the national income above the actual expenditure of a nation,” given in the second page of that work, appears equally correct, since it is out of this surplus that whatever constitutes public or private property, is obtained.—T.

† In England, *Raleigh* in his *Essay on Commerce* ; 1595. *Edward Misselden* on *Commerce* ; 1623. *Lewis Roberts*, the *Treasure of Traffic* ; 1641. *Thomas Mun’s* *England’s Treasure by Foreign Trade* ; 1664. *Fortrey’s* *Interests and Improvements of England* ; 1664. *Davenant’s* *Works* relating to the *Trade and Revenue of England* ; 1696. *M. Martin*, *Inspector-General of the Customs*. *King’s* *British Merchant, or Commerce Preserved* ; 1713.

In Holland, *Jean de Witt* *Mémoires* ; 1669.



Others ascribed the origin of wealth to the lowering of the legal rate of interest.\*

Deluded by a fascinating and captious theory, the French economists greatly extolled the Agricultural system.†

*Adam Smith* gave the preference to “Labour improved by subdivision, which fixes and realizes itself in some particular object or vendible commodity, which lasts for some time, at least, after that labour is past.”‡

*Lord Lauderdale*, in the work which we have quoted before, and which is remarkable for the sagacity of its views, states that, “man owes his wealth to the power of directing his labour to the increasing of the quantity or the meliorating of the quality of

In Italy, *Serra Breve Trattato delle Cose che possono far abundare li Regni d'Oro*; 1613. *Genovesi*, *Lezioni di Econom. Civile*; 1764. *Muratori*, *Felicit. publ. cap. 16. sul principio*. *Corniani*, *Reflez. sul le Monete*.

In France, the *Cardinal de Richelieu*, and *Colbert*, *Ordonnances et Réglemens pendant leur Administration*.

\* *Thomas Culpeper's* useful Remarks on the Mischief of an high National Interest; 1641. *Sir Josiah Child's* Brief Observations concerning Trade and Interest of Money; 1651. *Samuel Lamb* on Banks; 1657. *William Paterson*, author of the Project of the London Bank; 1694. *Barnard's* Discourses on the lowering of the Interest of Money; 1714.

† Physiocratie.

‡ *Adam Smith's* *Wealth of Nations*, Eleventh Edition, 1805, vol. ii. b. ii. c. 3. p. 2. *David Hume* has probably suggested the idea of this theory to Adam Smith. He expressly says: “Every thing in the world is purchased by labour.” *Hume's* *Essays*, Edinb. 1804, 8vo. vol. i. *Essay on Commerce*, p. 277.

“ the productions of nature, and to the power of sup-  
“ planting and performing labour by capital.”\*

The same variety of opinions prevails respecting the action or influence of the causes of wealth, their immediate or distant effects, their apparent or actual results. Some systems agree on a few points, and are at variance upon others; and generally they disagree in so many respects, that they cannot possibly be reconciled, reduced to common tenets, or condensed into a general theory.

Hence that variety of systems among authors, of methods among governments, of opinions among the learned; hence the discouragement of those who are desirous of studying the science, and the indifference of those whom a sense of duty should prompt to acquire the knowledge of it; hence also the little consideration which Political Economy enjoys in the world, and its total exclusion from the official routine of practical statesmen.

Some, in other respects well-informed men, doubt the existence of the science; others are even tempted to consider it as an occult one, the mysteries of which are revealed only to a few initiated individuals: thus ignorance, in this as in many other instances, begets alike incredulity and superstition.

When, in the course of private life, certain individuals get rich while others grow poor, the generality

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\* An Inquiry into the Nature and Origin of Public Wealth, and into the Means and Causes of its Increase; by the Earl of Lauderdale. Edinb. 1804. p. 363.



of mankind, ignorant whence this wealth or poverty arises, boldly ascribe it to good or bad fortune. By a singular conformity, when governments, notwithstanding the efforts and promises of ignorant and visionary projectors, find themselves reduced to distress, they are often inclined to attribute it to occult causes, the influence of which is to be remedied by specifics and secrets unknown to the learned. They eagerly search after, and even flatter themselves they have hit upon financial plans capable of relieving the distress of the state, without either impairing the fortune of individuals, or accelerating the decay of public wealth. As well might they seek for means to enable men to exist without food, to have their wants supplied without labour, and to grow rich by prodigality.

And can this credulity be wondered at? Does not the sect of the Economists, who cannot be accused of being deficient in knowledge or candour, seriously assert that governments ought to leave industry to its natural course; and that they have done every thing, when in fact they have done nothing? \* A paradox, this, extremely convenient for ignorance, intrigue, and ambition, and particularly agreeable to those who are entrusted with the management of national affairs.

In a certain point of view, this paradox undoubtedly contains a very profound meaning, and conveys a lesson highly useful in many respects. Individuals generally display more sagacity in the management of their own concerns, than governments in the regulations,

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\* *Physiocratie.*

statutes, privileges, prohibitions, premiums, and bounties, with which they think to provide for the greater prosperity of individuals and nations. Did governments suffer private individuals to act as they think proper, without attempting to regulate their affairs; their conduct certainly would be more conducive to wealth: in such instances, the maxim of the Economists is indeed an enlightened censure, and cannot be regarded as paradoxical.

But it ought not to be supposed that a government intimately acquainted with the interests of a country, and attentive to follow the progress and direction of private industry, should be utterly unable to invigorate the impulse of this industry when it happens to be beneficial, to prevent its aberrations when they might prove hurtful, or to lead it into more enlarged, more extensive, and more profitable channels. *Elizabeth* in England, *Richelieu*, and above all *Colbert* in France, are for ever entitled to the gratitude of their country and the veneration of all enlightened ages.\*

It is admitted by the Economists themselves, “ that  
 “ a great empire ought not to quit the plough for the  
 “ carrying trade; and that, at the example of a cele-  
 “ brated minister of state, wealth ought not to be

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\* “ The more simple ideas of order and equity are sufficient to  
 “ guide a legislator in every thing that regards the internal admi-  
 “ nistration of justice: but the principles of commerce are much  
 “ more complicated, and require long experience and deep reflec-  
 “ tion to be well understood in any state. The real consequence  
 “ of a law or practice is there often contrary to first appearances.”  
*Hume's History of England.* London, 1802. vol. iii. Henry  
 VII. p. 397.



“ derived from manual dexterity to the prejudice of  
 “ the primary source of wealth.”\* Would they then  
 be sorry if governments should apply all the means in  
 their power to favour agriculture in preference to  
 industry and commerce, and to derive public wealth  
 from an increased net produce ?

*Adam Smith* is not more consistent than the Eco-  
 nomists. He laughs at a statesman who should  
 attempt to direct the employment of the capital of the  
 nation †; and yet he points out the conduct govern-  
 ment ought to pursue, to encourage manufactures  
 necessary for the defence of a country, to facilitate  
 the exportation of the manufactured produce, and to  
 favour the importation of the raw produce to which  
 the manufacturer superadds his labour.

Let us therefore conclude, that, though it be the  
 duty of governments to give the utmost latitude to  
 private industry, it is yet of serious importance to  
 nations, that their statesmen be intimately acquainted

\* *Physiocratie.*

† “ What is the species of domestic industry which his capital  
 “ can employ, and of which the produce is likely to be of the  
 “ greatest value, every individual, it is evident, can, in his local  
 “ situation, judge much better than any statesman or lawgiver  
 “ can do for him. The statesman who should attempt to direct  
 “ private people in what manner they ought to employ their capi-  
 “ tals, would not only load himself with a most unnecessary con-  
 “ cern, but assume an authority which could neither be safely  
 “ trusted to any single person, nor to any council or senate what-  
 “ ever, and which would no-where be so dangerous as in the hands  
 “ of a man who had the folly and presumption to fancy himself  
 “ fit to exercise it.” *Adam Smith's Wealth of Nations.* Ele-  
 venth Edit. London, 1805. vol. ii. B. iv. c. 2. p. 190.

with a science that teaches the means of deriving the greatest benefits from industry and capital, and of directing both into the most profitable channels. It is only when a government is deficient in knowledge that its absolute inactivity is desirable.

The salutary influence of political economy is not confined to governments ; it is still more sensibly felt in legislation. Its principles, tenets, and theory, are closely allied and identified with the principles, tenets, and theory of legislation ; they act upon each other with an incalculable and assuredly unexpected force.

In every system of political economy, wealth is the work of men. It owes its existence to their passions, and its preservation to their moral dispositions. Hence wealth is necessarily modified by their political existence, just as their political existence is necessarily modified by the system that regulates wealth.

A political system which reduces the largest portion of the people to servitude, must have upon wealth an effect very different from one that insures the liberty of all the individual members of a nation, and admits them all to share in the benefits of the social compact, in proportion to their knowledge, talents, industry, and activity.

But even though the political system does not infringe upon the liberty of the subject ; if the law does not cause all kinds of property to be respected ; if it restrains the disposal and circulation of any property whatever ; if wealth is suffered to flow exclusively into the lap of certain classes or individuals, to the prejudice of all the other classes or individuals of the community, it is again evident that the law in this



case must have upon wealth an influence different from that which it exercises when it watches alike over the safety of persons and the security of property ; when it protects every kind of labour and industry ; and when it leaves individuals at liberty to contract for and dispose of whatever is their own.

How greatly do they err, who suppose political economy a stranger to politics, legislation, and government, and judge it possible to have good laws with a bad system of political economy, or a good system of political economy together with bad laws ! Wealth depends as much on politics, legislation, and government, as on political economy : these sciences are connected by indissoluble chains ; they support or oppose, and ultimately uphold or destroy each other.

Inattention to combine the elements of those different sciences in the constitution, laws and government of a country, gives birth to that clashing of public and private interests, that absence of character and phisiognomy in modern nations, those false measures and oscillations of governments, and that want of public spirit ; the necessary results of the conformity of individual passions with public ambition.

This opposition of views and interests, of theory and practice, of principles and conduct, is sure to disappear in proportion as political economy is improved ; as its study is rendered less difficult and more general ; as the ways of acquiring wealth are better known ; and as the necessity of combining the political, civil and administrative systems with the system of political economy, is more sensibly felt.

Durst I even venture freely to deliver my senti-

ments, I would assert that the progress of national prosperity, the consolidation of public order, and a higher degree of civilization, are closely connected with the study of political economy. Methods to acquire riches are necessarily methods of wisdom and good conduct. If dissolute individuals rarely grow rich, the mal-administration of governments must necessarily impoverish the people. Were the consequences of their faults as evident as those of individual errors; could the effects of public mal-administration be as accurately ascertained as those of private misconduct; there is every reason to suppose that public calamities would be more unfrequent and less disastrous. The depositaries of the fortune of nations would no longer sacrifice it to the delusions of vanity, to the deceitful promises of ambition, to the captivating splendour of a frivolous and transitory grandeur: or if they should happen to be misled by the violence of passion, their errors would be of short duration. Like Louis XII. and Francis I. of France, who, by the parsimony of the latter part of their reign, atoned for the prodigality and profusion of their younger years; princes, ever so little ambitious of true glory and desirous of the love of their people, would stop at a considerable distance from the precipice which threatens to engulf them together with public wealth.

Under the impression that I may perhaps accelerate that fortunate period by exhibiting, comparing, and contrasting the various systems of which the science of political economy is at present composed; I shall discuss their respective advantages and inconveniencies, and adopt that theory which, in a moral, political,



civil, and economical respect, appears entitled to the preference. The task, I know, is not easy, and little flattering to self-love. The merit of originality will rarely be mine. It would indeed be difficult to say any thing on this subject which has not been said already : but my satisfaction will be great, if I should remove the innumerable difficulties which I encountered when inclination led me to a science to which my previous studies and ordinary occupations had kept me a stranger.

Above all, I shall deem myself happy if I have avoided the inconvenience into which all the writers on this subject appear to have fallen. Their plans are generally defective. None has chosen one in which he could treat of every branch of the science in its natural order. None has used the analytical method which connects the different parts of a science, and combines them into a whole. I hope I shall at least approximate that desired perfection, by investigating successively, in as many separate books, the various systems concerning,

I. The sources of wealth, and

II. Their divers ramifications, such as labour, capitals, the circulation of commodities or commerce, and the revenue or consumption ; and particularly by stating in distinct chapters the various theories or opinions, and the controversies to which they have given birth, in every branch of the science.

This division appears to embrace the science in its general bearings, in its principal parts, and in its most minute details. It commands attention without fatiguing the mind ; allows every separate portion to be

examined without losing sight of the whole ; and forms a picture which a person of the least discernment may readily contemplate in its full extent without being bewildered by the multitude of the details.

But is wealth of sufficient importance, utility, or benefit, to individuals, or nations, to become the object of a science, to engage the attention of enlightened minds, and to require particular rules of conduct for public and private management ? Is not that rather true, which Plato said, that “ gold and virtue are two “ opposite weights in a balance, one of which cannot “ rise unless the other sinks \*?” Does not wealth deserve the stigma which so many moralists, politicians, and religious sectaries, have affixed to it ? And would it not be better to teach men the precious advantage of an honourable mediocrity, than to entice them to the fatal and deplorable road to riches ?

Though sufficiently resolved by both the eagerness with which all nations press forward on the road to wealth, and the important part which wealth performs in all public and private transactions, this superannuated problem appears yet entitled to a serious inquiry. I have discussed it in the Introduction to my work. A science ought indeed to be proved to be useful, before it is taught ; and it is only because the utility of political economy seemed evident to me, both in a moral and political point of view, that I have investigated whatever I thought worthy to be considered as pertaining to the science, and calculated to simplify its study, to accelerate its improvement, and to insure its success.

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\* *Travels of Anacharsis*. Engl. transl. vol. iv. c. 55. p. 363.



ON THE VARIOUS SYSTEMS  
OF  
POLITICAL ECONOMY.

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INTRODUCTION.

*On the Nature of Wealth.*

POLITICAL sciences afford few subjects of meditation more extensive, more complicated, more instructive, and more productive of important consequences, than the problem of the moral and political advantages and inconveniences of Wealth; a subject which has been so frequently discussed, and so variously resolved in every treatise on morals and politics.

When we consider how little, in this respect, men have been anxious to make their opinions agree with their practice, their principles with their conduct, and their morality with their actions; the solution of the problem becomes still more difficult: men appear to have prescribed duties for themselves merely for the purpose of transgressing them, or, at least, to have imagined that to transgress them was allowable as often as it might prove useful. Let it not be supposed, however, that this inconsistency is peculiar to

some individuals, some classes, or corporations, certain times and certain countries ; it is common to all men, to all nations, and all times. Though despised by the wise, condemned by religious tenets, accused by moralists and publicists of the perversity of individuals, the depravity of manners, the decline of nations, and the fall of empires, Wealth is yet every where the object of the ambition of individuals and nations; the cause of their quarrels and contentions, and but too often the reward of violence, of fraud and injustice, and of the infraction of all laws human and divine. Every where poverty, though praised, commended, and ranked among the virtues most honourable to humanity, is regarded as a misfortune, sometimes as a disgrace, and almost always as a symptom of vice, or of an inferiority of either physical or intellectual faculties.

To reconcile this singular contradiction, to develop its causes, and decide between the passions and the instructors of mankind, is certainly no easy task. It ought, however, to be less difficult, now that political economy indicates pure and salutary sources of wealth, the abundance of which may be increased by means conformable to reason, justice, and morality ; equally beneficial to the rich and poor, and as lawful as honourable in their application. Yet, by a strange fatality, this precious discovery has not cured public opinion of its prejudice against riches ; and to write in behalf of wealth, is still as rash, as it is rare to see poverty honoured in a drawing-room.

If political economy has hitherto been unable to make men relinquish their erroneous notions concern-



ing wealth, or to convince them of its being morally and politically beneficial, it is to be feared that the same fatal prejudice will be extended to the theory of Wealth, and that mankind will not feel greatly disposed to patronize a science, the object of which is little valued. There is, at least, no hope that it will be diligently studied, successfully cultivated, and eagerly diffused among the enlightened classes of the community, on whose patronage alone the progress of science depends, and without whose co-operation the solitary efforts of a few courageous partisans, who have to struggle against the torrent of general indifference, must always prove unavailing.

It is, therefore, of the utmost importance for the success of Political Economy, that the mysterious veil, which has hitherto concealed the true nature of wealth, should be removed. The origin of a prejudice so ancient against riches, and the source of the charms which wealth, in despite of this prejudice, constantly possesses in the eyes of individuals and nations, must be investigated. It must be known whether the disastrous effects of which wealth is accused, spring from its nature or from extraneous causes. It must, in fine, be ascertained whether wealth has been the parent of more virtues than vices; whether it deteriorates more than it improves the condition of nations; and whether it has been more prejudicial to the duration and safety of empires, than favourable to their elevation and grandeur.

Wealth is now performing so great a part in all domestic, national, and foreign concerns, and in every public and private transaction, that it is a matter of

much importance not to mistake its essence, its origin, its effects, and the universal application of which it is susceptible. The indifference which has proved so fatal to the theory of wealth, cannot be persevered in without endangering the social bonds of modern nations. At a time when Europe, shaken in her very foundations, is about to be re-established on a new basis, and when it is at length acknowledged that true politics ought no longer to separate the power of governments from the welfare of the people, it particularly behoves us to form correct notions of wealth, and to be acquainted both with the benefits which we are to expect from it, and the calamities which follow in its train. If wealth be useful, its advantages will be the greater for being more justly appreciated; if prejudicial, its disastrous effects will be better avoided or prevented by being known. Though truth be not always certain to please, it is yet sure of a favourable reception whenever it is beneficial to mankind.

Wealth, in the simplest and most general acceptance of the term, consists in the surplus of produce above consumption, or of income above expenditure. The extent both of public and private wealth depends on the accumulation of this surplus, and on the manner in which it is managed and applied.\*

The passion for wealth is general, universal, and,

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\* When individuals, hordes, tribes, and nations, have not enough to supply their wants, they are poor: when their means are adequate to their wants, they are equally removed from poverty and wealth: when they have a surplus left after having supplied all their wants, this surplus constitutes their *wealth*.



as it were, inhererent in mankind. The history of man and civil society shows it always active and enterprising. It is the spring of every private action, the principle and end of all public resolutions. In every country, in every nation, among the Scythian or Tartar hordes, among the tribes of Arabia or the savages of America, among the ancients and moderns, at all times and under all governments, the desire of riches exercises the same influence; whether mankind live insulated or collected in societies, whether they be governed by instinct or obedient to reason, this desire never varies but in its direction and its means.

The passion for wealth is not peculiar to mankind exclusively: vestiges of it are even found among some species of the brute creation. Several animals reserve the surplus of their provisions for future wants. By this reservation, they indicate the instinct of riches; and it is extremely remarkable, that these economical and provident classes of creatures happen also to be the most laborious of the animal kind.

But, in the brute creation, this propensity is limited; in men, it is without bounds. It has not influenced animals to proceed a step beyond the instinct for their own preservation; while, in men, it has been the principle and promoter of intellectual faculties, of liberal and mechanical talents, of ingenious and active industry: it has afforded mankind ample means and vast resources; secured them against want, procured them conveniencies, comforts, and enjoyments the most exquisite; and extended, as it were, the domain which nature destined for man, so that the distance which separates mankind from the

animal creation, might be measured by the distance of the most refined enjoyments from the most ordinary wants, or, in other words, by the distance of wealth from poverty.

Unfortunately, this passion for riches, which nature designed for such useful and beneficial purposes, has long been a constant source of disorder, violence, and calamities, among individuals and nations. Ancient history, and the records of the middle age, continually exhibit the passion for wealth to the philosophical observer as an obstacle to the safety, liberty, and happiness of individuals, to the independence and prosperity of nations, and to the increase and welfare of mankind: it is always arming men against men, cities against cities, and people against people. During those two periods, it seemed as if one man could not possess more than he stood in need of, without depriving another of the necessities of life; as if cities could not be rich but at the expence of the country, and as if a nation could not be wealthy but by impoverishing other nations. Every-where wealth is wrested from poverty, and opulence amassed out of the wrecks of indigence. Ages had rolled along before men perceived, or even before they suspected a more productive, a more abundant source of wealth, than the misery of their fellow-creatures. Communities, or individuals, all fancied they could not be rich but by seizing the property of others; and all attempted to secure a surplus by depriving others of their absolute necessary.

With this intent were framed the constitutions of the ancients, and of the people of the middle age;



in this spirit were their laws conceived, digested, and executed : such was the peculiar character of their institutions, governments, and public and private manners ; such the end of their social compact.

The servitude of the most numerous part of the people was the first consequence of this system. We find slavery established in the most remote times ; and this circumstance has betrayed some writers (in other respects estimable) into the supposition that servitude is a law of nature.

Independently of the greatest part of the people being enslaved, we find another considerable portion plunged into a depth of misery little preferable to slavery, and opulence reserved for a few privileged beings, whose number bears no proportion to the multitude bending under the load of social calamities.

To what cause ought we to ascribe a distinction so degrading to humanity ? Not to human nature : it makes neither masters nor slaves, neither rich nor poor. The inequality of strength, courage, and activity, may have produced the inequality of riches ; but it could not be the immediate cause of servitude and misery. The individual who is least favoured by nature, may much more easily do without the assistance of his fellow-creatures, in the social state, than in the state of nature : and surely it was not for the greater benefit of the weak man, that he was reduced to slavery by the strong one ; nor was it from a motive of humanity, or by way of kindness, that the rich rendered the misery of the poor subservient to the increase of their riches.

This distinction of masters and slaves, of rich and

poor, was, in ancient times and in the middle age, the unavoidable consequence of their civil associations being founded upon a system which stripped the weak for the benefit of the strong; or, rather, upon the wrong direction given to the inexhaustible passion for wealth. Aware that they could not grow rich without their assistance, men used every means in their power to subdue their fellow-creatures, and to impose upon them the yoke of their caprices and vices, and the care of supplying their wants and providing for their enjoyments. Man became the property of man, and in this respect J. J. Rousseau was right when he asserted, that he who laid the first foundation of property, was guilty of treason against humanity, and deserved the curses of mankind.

Fatal as this attempt of the passion for riches proved, every where, to the most numerous part of the people, it was yet repeated with the same ardour, and, at first, with the same success, by nations against each other. They were all anxious to appropriate to themselves the wealth of other states, and to submit them to their domination. Hostilities became permanent, and in this general struggle, a few proving victorious, subdued the others and stripped them of their riches. But punishment followed close upon the crime. The predominating states were no sooner arrived at the summit of power, than they fell with the same rapidity, and, to use the more correct than elegant comparison of *Fergusson*\*, they disappeared all at once, and “ the conflagration, which had filled

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\* *Fergusson's History of Civil Society.*



“ the world with its flames, subsided like a wax-taper  
 “ under an extinguisher.”

The causes and effects of this political phenomenon are established beyond contradiction, by the annals of all the distinguished nations of antiquity.

The Persians, who appear first on the theatre of history, were wretchedly poor when Cyrus led them on to the conquest of the rich provinces of Asia. The hope of emerging from misery was their only motive for war. They became conquerors for the sole purpose of enriching themselves; which they accomplished by stripping the vanquished of their wealth. The treasures of the conquered kings were distributed by the conquerors among the army, the generals and grandees, and all who, by their services, had deserved well of the country. Thus the wealth acquired by conquest contributed, at first, to the grandeur of the monarch, and the splendour of the empire: but it soon devolved to a few favourites, courtiers, and slaves; to all, in short, who, under absolute governments, feed upon the depravity and vices of their masters. From that instant the power of the Persians declined, until it vanished before an army of thirty-five thousand men, who issued from the barren mountains of Macedonia, or enlisted from among the *Proletarians* of Greece\*.

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\* The Proletarians (*Proletarii à prole creandâ*) were those citizens among the Romans who, being possessed of no more than fifteen hundred sesterces, had nothing to contribute to the exigences of the state but their children. *Asperis reipublicæ temporibus cum juventutis inopia esset, Proletarii in militiam tumultuariam legebantur.* Aul. Gell. xvi. 10.—T.

The Spartans, not less celebrated for their contempt of riches than for their astonishing exploits, appear little entitled to the praises with which they have been honoured by posterity. They reduced the Helotes, or inhabitants of Laconia, to servitude, for the purpose of imposing upon them the task of supplying their wants. The laws of Lycurgus, which had grounded the happiness of the Spartans upon disinterestedness, and obtained the approbation of the gods, could not guard them against the dangerous seduction of riches. Scarcely had their illustrious Lawgiver ended his days, than, regardless of both his laws and the gods, who had, as it were, declared themselves the patrons of those laws, the Spartans conquered Messene, and exterminated, banished, or enslaved its inhabitants: and it is this very period of oppression and robbery which marks the beginning of their importance and consideration among the nations of Greece. The Spartans did not shew themselves more rigid observers of the laws of Lycurgus against riches at any other period of their history: the ransom of the prisoners of war, and the booty of Plataea, were eagerly heaped up in their public exchequer; and, as Plutarch justly observes, “ private individuals  
“ took care not to despise the wealth which the public  
“ held in estimation; and the law which watched  
“ at the gate of their houses to keep them shut  
“ against gold, proved less powerful than the exam-  
“ ple of the people, who opened their hearts to  
“ cupidity.” Their best generals, and even the chiefs of the state, were bribed by the gold of the great



king, and the owls of Athens \* crept under the roof of the covetous Spartan.

But the wealth which the Spartans so anxiously coveted, could only be obtained by reducing other nations to poverty and wretchedness ; and when, in spite of the laws of Lycurgus, riches had been accumulated in the hands of a few citizens, Sparta had no longer any virtue, glory, or power, left †.

Attica, a dreary and barren country, could never have emerged from the state of indigence to which it was condemned by nature, had not the road to wealth and the career of ambition been opened to it, by its sharing in the booty of Plataea, and in the plunder of the cities of Asia Minor, which had declared for Xerxes. This first favour of fortune proved a powerful stimulus to fresh usurpations. The Athenians seized the chest containing the contributions which the confederate cities of Greece levied among themselves to repel the attacks of the great king. They arbitrarily raised the rate of contribution, subdued several towns and islands of Greece, stripped them of their riches, and exacted exorbitant tributes. Thus the Athenians grew

\* The money of Athens bore the impression of an owl.

† It has been remarked by historians, that when, after the battles of Leuctrum and Mantinæa, the power of Sparta declined, the Lacedæmonians were more attached to their gold than to their country ; and though their laws condemned the passion for riches, their avarice was carried so far, that of the nine thousand families who in the time of Lycurgus shared the whole wealth of the state, there remained not above seven-hundred in the reign of Agis, of which perhaps one-hundred had estates in lands. *Plutarch's Lives*. London. 1805. Vol. iv. *Agis*. p. 385.

rich by plundering, oppressing, and impoverishing other nations ; and as their wealth got into the hands of a few citizens, it caused the ruin of the state \*.

A few huts, built by strangers and fugitives on the sea-shore, were the slender foundations on which arose the magnificent towers of proud Carthage. Though at first indebted for her wealth to commerce, it was the plunder of the small nations by which she was surrounded, and the conquest and spoliation of the principal islands of the Mediterranean and of a large portion of Africa, which gave Carthage so considerable a mass of riches, that many of her private citizens were said to have been as wealthy as monarchs †.

The history of Carthage does not inform us what became of her riches, and whether they fell exclusively into the hands of a few citizens, as they did among the other nations of antiquity : but it positively acquaints us with the inordinate passion of the Carthagenians for wealth. The citizens were obliged to pay for whatever the state might or ought to have given them, and were paid for every service rendered to the state ‡. This mutual avarice of the citizens and of the state caused the misfortunes and ruin of Carthage, and produced precisely the same effects which wealth, exclusively possessed by a small portion of the people, had produced in other countries.

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\* There were citizens at Athens, whose landed estates were three miles in extent ; while others had not sufficient to pay for their burial. *De Paw, sur les Grecs.*

† *Montesquieu, Grandeur et Décadence des Romains, c. 4.*

‡ *Ibid.*



It was the fear of having their treasures diminished by extraordinary expences, which, in the first Punic war, induced that celebrated people to submit to the laws of the conqueror.

During the second Punic war, the interested policy of Carthage confined her attention to the preservation of her wealth. She did not extend her views to futurity, nor did she appreciate the genius of Hannibal. The Carthaginians were alarmed at the expences to which they were driven by the illustrious exploits of that great man; while they ought to have sacrificed the whole of their riches to his glory. And it may be asserted of this extraordinary people, that if the passion for riches was the principal cause of their greatness and power, it was the dread of poverty which occasioned their decline and ruin.

Rome, founded by robbers and fugitive slaves who were seeking an asylum against the justice of the laws, had for a long time nothing to subsist upon but what the Romans seized from the harvest of their neighbours. “ Romulus was almost constantly at war to procure  
“ citizens, women, or lands.

“ The Romans used to return loaded with the  
“ spoils of the vanquished, which consisted in sheaves  
“ of corn and droves of cattle. This proved the occa-  
“ sion of great rejoicings.

“ Rome being without commerce, and almost with-  
“ out arts, pillage was the only road to wealth. There  
“ was, nevertheless, a kind of order and regularity  
“ observed in plundering. The booty was collected  
“ into one heap, and distributed amongst the soldiers.

“ The citizens, who had been left at home, shared

“ likewise in the fruits of victory. Part of the  
“ conquered lands was confiscated and divided into  
“ two lots; one was sold for the benefit of the pub-  
“ lic, and the other given to the poor citizens, at an  
“ annual rent paid to the state.

“ As the glory of a general rose in proportion to  
“ the quantity of gold and silver that graced his  
“ triumph, none was left to the vanquished.

“ Rome continued enriching herself, and every  
“ successive war enabled her to undertake a new one.

“ Her allies, or friends, ruined themselves by the  
“ astonishing quantity of presents which they made  
“ to obtain a greater degree of favour, or to secure  
“ that which they enjoyed: half of the sums sent to  
“ Rome for this purpose, would have been sufficient  
“ for her overthrow.

“ Masters of the world, the Romans arrogated to  
“ themselves all its treasures. Their rapacity as  
“ conquerors was less unjust, than as legislators.  
“ Having heard of the immense wealth of Ptolemy,  
“ king of Egypt, they passed a law by which they  
“ constituted themselves heirs of a living monarch,  
“ and confiscated the dominions of an ally.\*

“ The cupidity of private individuals was not  
“ backward in seizing whatever had escaped public  
“ avarice. Magistrates and governors made a traffic  
“ of their injustice to princes. Competitors vied in  
“ rushing to their ruin to purchase a doubtful

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\* *Montesquieu*. Grandeur et Décadence des Romains. c. 6.  
The example has not been lost. The conduct of France towards  
Spain is the exact copy.—T.



“ protection against a rival whose means were not  
“ yet completely exhausted ; and the grandees of  
“ Rome shewed themselves devoid of that kind of  
“ probity which even robbers observe in their crimes.

“ No right, in short, lawful or usurped, could be  
“ kept safe but by means of bribes. To obtain  
“ money, princes robbed the temples of their gods,  
“ and confiscated the property of their richest sub-  
“ jects : they perpetrated a thousand crimes, to throw  
“ all the money of the world into the lap of the  
“ Romans.”\*

This eloquent sketch of the passion for wealth among the Romans, sufficiently explains the motive of their wars and the cause of their victories, conquests, domination, and power ; and it is with as much justice as truth that the immortal Montesquieu has ranked their passion for wealth among the causes of their grandeur.

The riches accumulated at Rome by the pillage of Italy, Gaul, Spain, Africa, and the opulent countries of Asia, became the exclusive patrimony of the Patricians, and caused those perpetual complaints of the Plebeians against them. They gave birth to the dissensions which convulsed the republic, and repeatedly threatened its dissolution. They furnished

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\* The nations by which the empire was surrounded in Europe, absorbed, by degrees, the wealth of the Romans ; and as they had grown powerful because the neighbouring monarchs had sent them their gold and silver, they grew weak, because their treasures were carried to other nations. *Montesquieu, Grandeur et Decadence des Romains.*

Julius Cæsar with the means of destroying public liberty, and enslaving his country. It was the prodigious wealth which the proscriptions of the richest citizens of Rome had placed at his disposal, that enabled Octavius to raise the Roman empire on the wrecks of the republic. It was, also, merely by lavishing upon the legions, Prætorian bands, and Barbarians, (by whose seditions and continual incursions their power was constantly menaced,) the produce of the proscriptions, murder and spoliation of the richest individuals of Rome and the empire, that his successors maintained themselves on the imperial throne. As long as mere private persons, whom their riches assimilated to kings, were smarting under the extortion of the emperors, the people felt no abhorrence for their execrable crimes: but as soon as the increasing load of taxes began to fall heavy upon themselves, the nation revolted against their oppressors; and from that instant the empire rapidly declined, and shortly became the prey of the Barbarians.\*

Lastly, it was with the sole view to possess themselves of the wealth of which the Romans had stripped the then known world, that the barbarous nations which surrounded the empire from the north to the east, commenced their harassing incursions, and contended for its wrecks.

Thus wealth, among the nations of antiquity, was alike the object of individual and public ambition, and the principal cause of the elevation and grandeur, and of the decline and utter ruin of states.

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\* See the preceding note.



The people of the middle age exhibited the same spectacle, and experienced the same fate.

“ The country of the Scythians being almost uncultivated,” says Montesquieu, “ its inhabitants were subject to frequent famines: they partly subsisted upon their trade with the Romans, who used to bring them provisions from the provinces bordering on the Danube: the Barbarians gave them in return the commodities they had gained by pillage, the prisoners they had made, and the gold and silver they had been paid to keep the peace: but when the Romans became unable to grant them tributes sufficient for their maintenance, the Scythians were forced to seek for settlements.”\*

Wherever they settled, they possessed themselves of a more or less considerable portion of land, of slaves, and moveable wealth; and although these riches must have appeared immense comparatively to their former poverty, they yet failed to produce upon them any of the effects which they had produced upon the nations of antiquity. The Barbarians underwent none of the vicissitudes which those nations had experienced. They preserved their spirit, their manners, their character, and their propensity to robbery and devastation. “ *To have no one to rob was to them a state of slavery.*”†

When they had no more enemies to fight, no more booty to share, no more wealth to wrest by conquest

\* Montesquieu, *Grandeur et Decadence des Romains*.

† *Etenim hoc illis servitus est nullos habere quos deprædantur.*  
Libanius.

from strangers, they warred with themselves to strip each other; and hurried along by their insatiable cupidity, they paid no respect either to the identity of origin, to the ties of blood, to political connections, or even to social and domestic relations. Fathers, children, and brothers, kings and barons, lords and vassals, all fought against each other to increase their riches by the misery and poverty of their enemies: but their culpable expectations were deceived. Their general and continued hostilities, instead of enriching them, created every where wretchedness and indigence; harbingers of the revolution which caused the destruction of the feudal government.

The barrenness of the soil introduced, among the Arabs, a maxim in which they have confided, and which they have practised ever since the most remote times: they suppose that, by the division of the earth, the rich and fertile climates have been assigned to other branches of the human race; and that the posterity of the proscribed Ismaël, from whom they are descended, may recover, by fraud or violence, that portion of his inheritance of which he has been unjustly deprived. According to Pliny, the Arabs are equally addicted to theft and commerce; the caravans which journey across the desert, must either ransom themselves, or submit to be pillaged: and ever since the remote times of Job and Sesostriis, their neighbours have been the victims of their rapacity.\*

Mahomet took advantage of this rapacious dispo-

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\* Diodorus Siculus, vol. i. Book 1.



sition, and, by methodizing it, united all the Arabs under the banners of religion and plunder. He set apart the fifth of the gold and silver, prisoners, cattle, and moveables, for pious uses; the rest was divided in equal portions among the soldiers who had contributed to the victory and those who were left to guard the camp. The share of those who had fallen in battle, was given to their widows and orphans.

The first caliphs who succeeded Mahomet, took no more from the public revenue than was requisite to supply their wants, which were extremely moderate; the remainder was scrupulously applied to the salutary work of spiritual and temporal conquests.

The Abassides impoverished themselves by the multitude of their wants, and their neglect of economy. Instead of taking ambition for their guide, as the first caliphs had done, their leisure, their affections, and the faculties of their minds, were solely engrossed with the pomp of feasts and pleasures. The rewards due to valour were dissipated by women and eunuchs; and the royal camp was incumbered with the luxury of the palace. The same vices spread among their subjects; and from that instant their tottering empire, dismembered and disunited, left nothing in their impoverished hands but the barren deposit of the laws and religion of Mahomet.

This hasty sketch of the passion for wealth among the nations of antiquity and the middle age, of the course it followed, and the share it had in their elevation and decline, leaves no doubt respecting the power and empire which it exercised over them. Notwithstanding the high colouring employed by historians,

misled or prepossessed by their splendid exploits, to disguise it under the veil of their love of country, glory, or religion, truth pierces every where; the insatiable thirst for riches betrays itself in all their private actions and public concerns; and the illusions of the historian, and the fascinating powers of the orator, are both dispelled by the torch of history.

Modern nations are not less addicted to the passion for wealth, than the nations of antiquity and the middle age: but they have been more enlightened, or more fortunate in the direction which they have given to that passion; and their wisdom or good fortune has not only guarded them against the perils and calamities attached to riches, but has also made them sensible of the unforeseen, incalculable, and unbounded benefit, which wealth is capable of affording\*.

Venice, Genoa, Pisa, and Florence, which first

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\* I fear, the moderns are little entitled to this compliment. Neither nations nor individuals are content to grow rich by labour and industry, until they are precluded from becoming so by plunder and violence. This is sufficiently proved by the behaviour of all European nations to the natives of the East and West Indies, and by the revival of slavery in its most odious form, wherever the inferiority of one race rendered it safe for the other to exercise such an unjust dominion. The secret partisans of the Slave-trade are still too numerous, even in the country whose laws have acknowledged its barbarity, and pronounced it felony, to allow any shouts of triumph on account of the improved dispositions of mankind with regard to their desire of riches. The immutability of human nature, in this respect, is unfortunately too strongly confirmed by the conduct of the two most enlightened nations of Europe in our times: the English, some years ago in the East Indies, and the French all over the continent, and at this very hour, in Spain.—T.

attract our attention in modern history, turned their passion for wealth to labour, industry, and commerce. Though they sometimes fought for the advantages of an exclusive commerce, yet their wars had less tendency to enrich them with the spoils of their enemies, than to remove competitors and rivals, and to enjoy a monopoly, of which the ignorance of the times magnified the benefits, and kept the vices and inconveniencies out of sight.

It was only in labour, manufactures, and commerce, that the Hanseatic towns and the cities of Spain, France, and Germany, when they escaped from feudal depredations, sought for means to enrich themselves; the object of their league was merely a system of defence contrived for the interest of the confederates, and inoffensive in every other respect. History accuses them neither of violence nor of usurpation.

Though the Portuguese and Spaniards, who first sailed beyond the Cape of Good Hope, and found a new world, shewed themselves on the outset as conquerors in the countries which they discovered; though they carried thither the spirit of rapine and conquest which was still predominant in Europe, and stripped the vanquished of their manufactured and agricultural produce; the impossibility of turning this produce to advantage, without exchanging it for other commodities, subjected them to the law of competition, which, as it excludes every idea of force and violence, is intimately allied to notions of justice and equality, and connects all men by the need in which they stand of each other.

This barter, exchange, or commerce, which was



become the basis of the connection of the European nations with each other, exercised also a favourable influence over their relations with the nations of Hindostan and America. In vain do force and violence still attempt to keep them in subjection, and to maintain an odious monopoly in those two portions of the globe. Modern nations have no solid and durable means to enrich themselves, but by labour, by the developement and improvement of their faculties, by the economy and rapid circulation of their produce, and by its wise application, distribution, and consumption. From Kamtschatka to the Pillars of Hercules, from the Elbe to the Ionian Sea, labour is the power which distributes wealth, and whose favours all nations implore; and it is particularly worthy of remark, that this wealth, far from occasioning the destruction or decline of opulent nations, has proved the firmest support of their prosperity, power, and grandeur. Whenever particular causes have dried up or diminished the source and abundance of this wealth, nations have declined in consideration, grandeur, and power, in the ratio of their impoverishment. Venice, Genoa, Florence, the Hanseatic Towns, and even Holland, lost their preponderance, or political influence, only when their commerce, the principal source of their riches, declined, and, taking a different road, went to enrich nations possessed of a more extensive territory and a larger population.

Thus the nations of antiquity, as well as those of the middle age and modern times, have all been ruled by the passion for riches: they only differ in the means employed to satisfy that passion. This differ-

ence satisfactorily explains the various effects which wealth has had upon these different nations, and throws a brilliant light upon its true nature.

The ancients and the people of the middle age knew and practised but one way to grow rich, and to increase and keep their riches: they placed their hope and confidence in the right of the strongest, to which they made their institutions, their laws, their manners, and their customs, subservient. Their only object was to render their population numerous, brave, skilled in arms, and always ready to sacrifice themselves for the purpose of subduing other nations and seizing their wealth.

But, by a singular fatality, it happened that, in proportion as these nations improved in military science, as their arms were successful and their wealth augmented by victories, their domination lost its stability, they became less able to defend themselves, their grandeur shortly declined, and they were soon subdued.

Both moralists and publicists have observed this phenomenon, and have thence inferred that wealth caused the fall of the great empires of antiquity: and it must be confessed, that their opinion appears indeed an immediate consequence of the most certain and best authenticated facts.

But have they not gone too far, when they magnified this consequence into a principle, and pronounced the wealth and safety of nations, and the opulence and preservation of empires, to be absolutely incompatible?

Had they inquired without prejudice into the causes

which rendered riches fatal to the Persians, to the Greeks, to the Carthaginians, to the Romans, and to the nations of the middle age, they would have perceived that these causes did not arise from a vice particularly inherent in wealth, but from the system of violence by which these nations acquired their riches ; from the nature of their military government, which concentrated wealth in the least numerous class, and, as it enslaved or impoverished the other classes, rendered wealth equally fatal to the rich and to the poor, to individuals and to the state.

Among the Persians, the Greeks, and the Romans, the people were divided into two classes. One, composed of slaves, formed three-fourths, two-thirds, or at least half of the population. The other, composed of freemen, formed the state, the nation, the country.

Although all the individuals of this class had an equal right to the benefits of the social compact, they yet did not share these benefits in equal portions.

Independently of the inequality of individual faculties which in every community opposes the equal distribution of wealth, an essentially military government favoured this inequality, and aggravated its pressure and misery.

At the origin of empires, the vices of this concentration were not felt, because the military force consisted of all the citizens, and all had more or less share in the booty and riches conquered upon the enemy. The desire of wealth was at that period the surest pledge of victory, and the most powerful cause of the elevation and grandeur of the state. But when the whole body of the citizens was no longer wanted



either for defence or for attack, when one part of the forces of the state sufficed for its views and projects, the military government became concentrated, and wealth, following the laws of this concentration, passed almost exclusively into the hands of those who were invested with power.

In vain did the classes, deprived of their share in the general riches, murmur and revolt at the voice of a tribune, a demagogue, an ephorus, or a popular orator; their cries were stifled or appeased, but the wrongs of which they complained were not repaired, and wealth always followed the bias of concentration. Matters went so far, that the greatest number of freemen had no means of subsistence, but what they derived from the generosity of their patrons, the liberality of candidates, and the distributions made by the public exchequer.

Such a distribution of wealth must inevitably prove fatal. It gave every thing to a small number of individuals, and denied every thing to the general mass of citizens. It created at once extreme poverty and extreme wealth; it placed want on one side, and on the other the arbitrary power of prolonging or ending its misery. It inevitably occasioned every disorder attendant on general depravity, perverted institutions, laws, and manners, corrupted the morals of the people, and subverted justice and humanity.

Slaves, over whom their masters generally had the right of life and death, were and must necessarily have been the passive instruments of their caprices and vices.

The freemen who were poor, and dependent for

their subsistence on the liberality and munificence of the wealthy, had not, and could not have, any other conduct, morality, or virtue, than that of their patrons, magistrates, and benefactors.

The rich themselves, while they enjoyed their immense riches, had nothing to fear, nothing to hope, nothing to wish for. What virtues must they have been possessed of, not to be absolutely vicious! What notions could they have of domestic duties, of the relations of masters and slaves, magistrates and citizens, nations and individuals! The power of satisfying every desire vitiates them all, and renders virtue too difficult, not to say, impossible.

This distribution of wealth smothered every private and public virtue in the bud, and nurtured only the vices destructive of social order.

Both the slaves who were submissive to the will of their masters, and the freemen who depended on the kindness of their patrons, were indifferent to the fate of their country, and took no interest either in its safety or in its glory.

The rich, as sole possessors of wealth and exclusively invested with public offices, shared, or contended for, the supreme power, made war or peace, maintained public order or fomented civil discords, and acted right or wrong, at their convenience or pleasure.

This concentration of wealth and power among the rich had so reduced the number of individuals interested in the safety of the state, that every page of ancient history records the difficulty of finding defenders for the country, and of levying and recruiting

armies. We see the number of combatants decreasing every where in proportion to the increased wealth of the state and its concentration in one single class.

When the law of the Ephorus Epitadeus allowed the Spartans to sell their landed property and to dispose of it by will, and when the estates which had been distributed by Lycurgus among nine thousand citizens, were possessed by one hundred individuals, Sparta had no longer any soldiers, army, or power.

When Athens contained within her walls individuals possessed of three miles of land, while others had not wherewith to get buried, Demosthenes vainly proposed to raise an army of two thousand foot and five hundred horse; a third only of which was to consist of citizens; no one was ready to defend a country which was become the property of a few families.

At Carthage, the wealth produced by commerce and conquest did not follow the law of concentration of military governments: her political constitution did not accumulate it exclusively in the lap of one class of the people. Hence her citizens were not infected with any of the vices that occasioned the ruin of the other ancient nations, and though Carthage perished like them, it was neither from the same causes nor by the fatal influence of wealth.

But her riches did not prove of great utility for her defence; perhaps they were even rather unfavourable to those civil and political virtues which are so essential to the prosperity and preservation of states: the reason of this may again be found in the polluted source from which her riches sprang. As the fruits of



commerce and conquest, the wealth of Carthage, partook of the vices of both: the parsimony of the merchant tarnished the warlike virtues of the soldier, and the avidity of the soldier impaired the social virtues of the merchant; both were less occupied with the state than with their private interests, and less anxious for their country than for their wealth. But in this instance, these vices were not the offspring of wealth, they proceeded chiefly from the conquests to which the Carthaginians owed the greatest part of their riches. The influence of the commercial spirit could not prevail over the spirit of conquest; they mutually perverted each other, and became equally incapable of saving and defending the country.

Lastly; Rome, which during the second Punic war counted two hundred and fifty thousand men under arms, beheld, when she was become mistress of the world, her liberty decided at Pharsale by sixty-three thousand combatants, forty-one thousand of whom were in the army of Pompey, and twenty-two thousand in that of Cæsar; and the world submitted to the decision of that famous battle \*.

What more striking proof can there be required of the fatal effects of the concentration of riches? And is it possible to ascribe to any other cause the number-

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\* The lands of Italy, which had been originally distributed to poor but free families, were insensibly purchased or usurped by the avarice of the nobles, and in the century which preceded the fall of the republic, there were scarcely two thousand citizens possessed of an independent fortune sufficient for their maintenance. *Gibbon's Decline and Fall of the Roman Empire.*

less calamities which hurled all the empires of antiquity from the summit of grandeur and power?

The Barbarians, who invaded the Roman empire in the middle age, left to the vanquished a part of their riches, and shared in the other part: this partition divided wealth among two classes of men, but in proportions so unequal, that, if it did not occasion a concentration similar to that which existed at Sparta, Athens, and Rome, it caused at least so great a disparity, that the people were again divided in three classes; one composed of slaves and bondmen, the second of small proprietors, and the third of the owners of large estates.

The bondmen, like the slaves of the ancients, were condemned to labour for their masters, and had no more rank in the state than the slaves of Athens and Rome and the Helotes of Sparta. The class doomed to this servitude, composed the major part of the people.

The small proprietors, much more numerous than the great land-owners, were indebted to the latter for their safety and part of their means of subsistence; and in both respects resembled the Proletarians and the poorer citizens of Rome and other ancient states.

The great land-owners, as they disposed of the bondmen and small proprietors, whom they attached to their fortune or rendered dependent, defied public power, warred with each other, and regarded themselves as so many independent sovereigns. This anarchy, again, had evidently its source in the concentration of wealth; a concentration, the strength of which

increased as the public power was enfeebled; its excess occasioned that general misery which every where provoked resistance, and finally delivered Europe from feudal oppression.

Again, therefore, does the history of this period impute the calamities of the times to the concentration of riches, and absolve wealth itself of the reproaches with which many philosophers have judged themselves authorized to load it.

But its moral and political effects, as soon as it circulated, with comparatively less obstacles, in every class and among all individuals, ought, in my opinion, to remove every doubt respecting the nature of wealth and the estimation in which it is to be held.

From that period, which separates modern times from the middle age, wealth has been as productive of public and private prosperity, as it had been before of general and individual distress.

Produced by labour, it rendered men particularly attentive to the means of augmenting the productiveness of labour. They soon perceived, that the free labourer who works for his profit, multiplies the produce he consumes during his labour; while the slave or bondman scarcely replaces what he consumes. In proportion as this truth was diffused by experience, the passion for wealth broke the fetters with which it had held mankind enslaved.

On the other hand, the free but poor class that till then had lived dependent on the great land-owners, being enriched by labour, shook off this dependence, afforded to the public power a force formerly devoted



to the private power of the great land-owners, conferred upon civil society a greater stability and extent, and gave it a stronger and more secure direction.

By being rendered more general, the interests of the community were aggrandized, the commonwealth ceased to be a private concern, and actually became common. The interest of the hitherto oppressive and domineering rich was no longer an obstacle to good laws, a protecting government, and a public power capable of watching over and maintaining the rights and interests of all. The ideas of morality, justice, and humanity, which are effaced when poverty is oppressed by wealth, resumed their force, as soon as riches circulated in every rank of the community; the poor had no longer to dread the oppression of the rich, the laws guarded every private interest, and governments directed their attention to the interests of all.

As wealth diffused itself in every rank of the community, it consolidated for ever this beneficial revolution by affording to every class the means of knowledge, instruction, and wisdom, formerly confined to the rich alone. Nations, as they grew more enlightened, became better acquainted with their own interests, and better disposed to perform every individual, domestic, and social duty. Knowledge exercised a re-action upon wealth, and imparted to it a power which rules alike individuals, associations, and empires.

The social compact, the constitution, the laws and the institutions of every people, were gradually directed towards the maintenance, preservation, extension,

and possession of those riches, which every one may acquire by labour, industry, and commerce.

Even in the foreign concerns of nations, and in their treaties with others, diplomacy had no other object in view than the preservation and extension of their respective riches.

Thus, that passion for wealth, which had armed the nations of antiquity and the middle age, which had continually excited them to battles, rapine, destruction, and conquest, and filled up the measure of social calamities, enticed the moderns to labour, manufactures and commerce, and inspired them with the love of peace and feelings of general benevolence and friendship. On this new road to wealth, individuals, communities and empires have found all the prosperity which may reasonably be expected in civilized society.

Wealth, produced by labour, maintains, in eighteenth-twentieths of the people, the strength, energy, and dexterity, with which man is endowed by nature, and developes, in the two remaining twentieths, those faculties of the mind which seem beyond the sphere of humanity, and bring man as it were nearer to the divine nature. Produced by labour, wealth banishes idleness and the vices unavoidably connected with idleness; it renders man laborious, patient, sober, economical, and adorns him with those precious qualities, the sources of individual, domestic and social virtues.

It binds the natives of the same land by the most powerful of all ties, mutual wants, reciprocal services, and the general consideration, which they entail upon their country.

It restores man to his primitive dignity, through the sentiment of his independence, through his obedience to laws common to all, and his sharing in the benefits of society in proportion to his services.

It has rendered nations more powerful, because every individual member is interested in the success of national affairs, all bear their weight, and all share in the advantages which they procure. This community of good and evil, to which the circulation of wealth calls every individual of the nation, affords the greatest strength which the social compact possibly can or ever did produce. The conquering nations of antiquity and the middle age, were acquainted with this stimulus, and employed it during their conquests; it constantly insured their success, but they neglected it after victory; they attached the rich alone to the interests of the community, and from that instant their power declined, and was shortly annihilated.

This stimulus is as active among industrious and commercial, as among conquering nations, and its strength and intensity can never be impaired or lost. Whatever may be the stock of riches accumulated through labour, it impoverishes no one; on the contrary, it enriches every individual: it is the instrument of general wealth, it increases the mass of labour, and the sum of its produce, and consequently augments the resources of the laborious and the treasures of the rich.

Modern wealth affords yet another inestimable advantage to civil society; the more it is generally diffused, the more it renders obedience light and easy, government strong and powerful, and public authority



just and absolute. The rich man is every where the most submissive, the most disposed to obey the laws of his country, because he is sensible that to them he owes the preservation of his wealth. The poor man, on the contrary, obeys only by constraint and necessity, and consequently lives in a continual hostility against society. Had the science of statistics arrived to that degree of improvement which it is desirable that it should reach, the ratio of the security and power of governments might, by an algebraic calculation, be determined by the ratio of wealth and poverty; and political revolutions might be foretold with as much certainty as astronomers foretell the revolutions of the heavenly bodies.

Lastly, the effects of wealth, produced by labour, are felt alike by the nations that compose the great family of mankind, and by the individuals who compose each national family.

In this system, man is no longer an obstacle to man, nations are no longer obstacles to nations. It is the interest of all to labour the one for the other, to interchange the respective produce of their labour, and to increase the domain of general wealth. The labour, industry, and commerce of every individual is useful to all, whatever portion of the globe they may inhabit; the more extensive agriculture of one country is beneficial to all laborious, manufacturing, and trading nations; it increases the produce destined for general consumption, which, in its turn, augments population; and this augmented population affords new consumers to the productions of the industry of every nation.

Thus all nations share in the prosperity of each, and the portion of each is proportioned to its labour, manufactures, and commerce.

In vain do nations exert, fatigue, and exhaust themselves in military, diplomatic, and commercial combinations, to obtain, by cunning or force, a larger or smaller share of the general wealth. Their efforts are abortive; the distribution of wealth follows the ratio of labour, manufactures, and commerce; and as these obey neither force nor cunning, and only yield to equivalents, blind ambition will, necessarily, at last be obliged to submit to their peaceable rule.

If the combinations of force are delusive and deceitful, and cannot be substituted for the toilsome and painful efforts of labour, manufactures, and commerce, those of monopoly are neither wiser nor more beneficial. The charges of a monopoly absorb its profits; and monopolizing nations are actually impoverishing themselves, whenever they want to turn the prosperity of other nations to their own particular advantage.\*

In short, to prevent wealth from flowing into the channels which labour, manufactures, and commerce, have dug for it, is impossible; and if we deplore the blindness of the times when military force fancied it could extract treasures from the misery, indigence,

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\* As the French begin to perceive the inutility of the devices of force to obtain wealth, it is not unreasonable to hope, that the English will also, at length, perceive the inutility of schemes of monopoly. England's aim at monopolizing the trade with colonial produce, though it cannot excuse the ambitious attempts of France, must yet be acknowledged as one of their causes.—T.

and calamities of the world ; the moment is not far distant, when monarchs will acknowledge that there are no safe, legitimate, and honourable means to grow rich but through labour, manufactures, and commerce.

Let us, therefore, conclude, that wealth, in all ages and under all governments, exercised an absolute power over individuals, nations, and empires ; and that, according as it was attempted by force, conquest, and devastation, or by labour, and economy, its effects have been fatal or salutary to the human race. How greatly then have they erred, who thought they could apply to modern wealth the results and effects of the wealth of the nations of antiquity and the middle age ! One is no more to be compared to the other, than the offensive and defensive weapons of the ancients can be compared with those of the moderns, or their tactics with ours. Their wealth had its source in the impoverishment of nine-tenths of the people : modern wealth is derived from the riches of the whole population. The former enervated, effeminated, and depraved the rich, perverted and degraded the poor, and rendered them strangers to the community : the latter furnishes the rich with the means of knowledge and instruction, and enables them to direct labour, industry and commerce : it insures to the less fortunate classes, and even to those who are the most needy, a portion of the general wealth, which portion is always proportioned to the extent of that wealth. Thus the interest of the poor is never separated from the interest of the rich ; they lend each other a mutual support.



The wealth of the ancients kept all nations in a permanent state of hostility, devastation, and servitude; and, consequently, held out a permanent obstacle to the general civilization and improvement of mankind. Modern wealth connects all nations; it binds them by common interests, causes them to forward the same ends by the sentiment of their private interest, and associates them, in some degree, to the progress of the civilization and amelioration of the human race.

One is, therefore, as desirable as the other is odious; and one ought to be as much extolled, as the other has been justly reprobated by all enlightened writers.

Those nations which ambition is still propelling towards domination, as well as those who possess a sentiment of real grandeur, and know that it consists in a noble independence, are equally interested in studying the causes of modern wealth, and in discovering and improving the methods by which it may be increased and rendered useful in its application: they ought, therefore, to patronize the progress of political economy by all the means in their power.

## BOOK I.

OF THE VARIOUS SYSTEMS CONCERNING THE  
SOURCES OF WEALTH.

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THE most ancient system concerning the sources of Wealth derives wealth from foreign commerce; that is to say, from that commerce in which one nation sells more to other nations than it purchases, and is paid for the surplus of its sales over its purchases in precious metals. This doctrine was adopted without any limitation by the authors who first wrote upon Political Economy in England, Italy, and France, during the sixteenth, seventeenth, and up to the middle of the eighteenth century; and although it has been strenuously combated by later writers, it has yet prevailed and still prevails in the opinion of individuals, nations, and governments: all consider commerce as the true way to grow rich; and by commerce they all understand the exchange of commodities with foreign nations. An opinion so general, so ancient, so lasting, can neither be ascribed to blind prepossession, nor to vain credulity or foolish obstinacy. Time, which has destroyed so many errors, superstitions, and inveterate habits, almost coëval with the social state, would not have respected

a doctrine contrary to private and public interest. What then has so long protected this doctrine against the outrages of time, the progress of knowledge, and the charm of innovations? Is it not its resting on the authority of facts, on the experience of ages, on every thing that is certain and evident among men? The conjecture is not improbable.

If we ascend ever so high in the history of Wealth, we find that wealth always followed the direction of foreign commerce, and remained faithful to its banners and ships. During eight hundred years, the commerce of the Phœnicians fixed wealth in the ports of Sidon and Tyre. In these celebrated cities it long bade defiance to the avarice of the greatest conquerors of the East; and when the conquest and ruin of these industrious cities forced wealth to seek for a fresh asylum, it went over to the nations that inherited their commerce.

The Greek and Iōnian cities, Alexandria, Marseilles, and Carthage, which gathered the wrecks of the trade of Sidon and Tyre, were not less celebrated for their wealth. Carthage, in particular, rose to the highest degree of splendour and power, struggled successfully for a length of time against the fortune of the Romans, and delayed for more than a century the subjection of the other nations.

When the Genius of Rome grounded on the ruins of Carthage the conquest of the world, the sources of wealth were dried up in Europe, in Asia, and in Africa; because these countries had no longer any commercial communication.

The treasures which had been accumulated at Rome



by the plunder of all nations, did not prove a source of wealth for any country ; they fertilized no lands, improved no kind of industry, and did not extend the bounds of civilization in any one respect. They were exhausted by purchasing the rich productions of Asia, appeasing the seditions of the cohorts, saving the empire from the successive depredations of the Barbarians, and satisfying their insatiable avidity. They vanished without leaving a vestige behind, and Rome, her provinces, and her tributary nations, differed only in the degree of misery and wretchedness.

During the eight centuries which followed the overthrow of the Western Empire, under the rapid succession of Barbarians, who left nothing behind but the remembrance of their ferocity, rapacity, and devastations ; during that long period of violence, anarchy, and crimes, the opulence of a few individuals condemned the whole population to general misery.

Constantinople, it is true, was the centre of an immense variety of political and commercial affairs : but the great extent of the empire, the majesty of a conquering nation surrounded by barbarous and rapacious neighbours, the magnitude of the tributes, the sums accumulated in the imperial exchequer, stifled that emulation, that activity and energy, for which commerce is distinguished, and through which it yields abundant riches. It may therefore truly be said, that, from the destruction of Carthage to an advanced period in the middle age, that is to say, for more than thirteen centuries, the sources of wealth were dried up throughout the Roman empire, and

consequently throughout the whole then known world.

It was only in the twelfth century that these sources were again opened, and Europe was again indebted for wealth to foreign commerce.

Venice, Genoa, Pisa, and Florence, though doomed to poverty by the barrenness or smallness of their territory, acquired yet great wealth by their commerce with the produce of the East and North. Not less powerful than Tyre, Sidon, and Carthage, they dictated laws to the Greek empire, bade defiance to the greatest monarchs, and balanced for more than three centuries the fate of Europe. Their grandeur declined with their wealth, which they imprudently sacrificed to expensive wars, to a fatal rivalry, and an unbounded ambition; it vanished for ever when unforeseen events turned aside the current of their trade, and reduced them to the resources of their territorial riches and local industry.

The numerous factories which these cities had established in the north of Europe, at Lubeck, Bremen, Hamburgh, Bruges, and Antwerp, created there new sources of wealth and prosperity. Towns hardly known before the introduction of foreign commerce, were soon distinguished for their wealth, splendour, and power. Wiser than the cities of Italy, they guarded against the dangers of rivalry, formed a confederacy for the protection and defence of their trade, and laid the foundations of the Hanseatic league, that monument of boldness and prudence in a barbarous age and among a rude people.

Strengthened by the accession of one hundred and

sixty towns of Flanders and the Baltic, the Hanseatic league rapidly attained a great commercial and political prosperity: the wisdom of its conduct was equal to the wisdom of its institution; it opposed a salutary resistance to the progress of feudal anarchy, enlightened the people concerning their true interests, and caused the spirit of commerce, manufactures, and labour, to prevail over the spirit of murder, rapine, and devastation. The services which the Hanseatic league rendered to humanity in those barbarous times, are invaluable, and yet they scarcely occupy a few pages in the records of Europe\*; while many volumes are filled with the history of the crusades by which Europe was devastated, of the ambitious pretensions of the Pontiffs of Rome, by which she was disgraced, and of the quarrels of vassals and lords, by which she was oppressed and kept in servitude. Is it possible that the picture of public vices should be more attractive to mankind than the spectacle of public virtues? Or is there no other title to the remembrance, consideration, and veneration of men, than the harm which is done to them? The Hanseatic league, that perfect paragon of a wise political association, only ceased to exist, when its existence was no longer necessary to the protection and safety of its commerce, and when the towns of which it was composed found, in the government of the countries in which they were situated, a full

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\* The late professor *J. Fisher*, of Halle, published an excellent history of the Hanseatic League, in German, about five-and-twenty years ago.—T.



security of persons and property. By its generously confiding its interests to the care of all, the Hanseatic league left the world an honourable remembrance consoling to humanity.

The discovery of America and of a passage to the East Indies by the Cape of Good Hope, the abundance of the precious metals which it caused to circulate in Europe, the general comforts, which were an obvious consequence of this discovery, every circumstance of this ever-memorable event confirmed the opinion respecting foreign commerce, and left no doubt about its being the true source of wealth.

But how does commerce enrich a country? By what channels does it pour its benefits? And how is the productiveness of commerce to be increased and its prosperity insured?

The majority of writers supposed, that foreign commerce enriches a country by the plenty of gold and silver which it causes to circulate \*; and governments, in conformity to this doctrine, endeavoured to retain the precious metals, or to invite them by encouraging national manufactures, by directly or indirectly prohibiting the produce of foreign industry, or by procuring to the produce of national industry,

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\* We must do the justice to *Davenant* to confess, that, although a partisan of the mercantile system, he did not limit its advantages to the abundance of precious metals which it accumulates in a country. This justly celebrated author, on the contrary, lays it down as a principle, that every trade is advantageous, provided its returns be more considerable than the goods exported, even though the returns should consist in perishable commodities. Vol. ii. p. 11.

an easy and even privileged introduction into foreign countries. Such was, and such is still, some few modifications excepted, the system which places the source of wealth in foreign commerce; and which, on that account, is called the Mercantile System.

The great estimation in which a gold and silver currency was every where held, naturally led some philosophers to watch its progress, its distribution, its circulation, and, above all, its influence upon private and public concerns; and it was not long before the inconveniencies which might be apprehended, and the advantages which might be expected from it, were discovered.

The Italian writers soon pointed out the vices of the prevailing monetary system, and threw great light upon that important part of the science.

Towards the end of the sixteenth and in the beginning of the seventeenth century, *Davanzati* at Florence, and *Turbolo* at Naples, gave excellent instructions on metallic currency.\* But their writings proved unavailing against the disorders which they wanted to stop or to prevent. When we peruse these ancient writings, we do not know whether we ought to be more surprised at the extensive light they throw on the subject which they discuss, or at the small influence they had upon their own times. It is as if their country was to give to the rest of Europe the example of the calamities which result from the dis-

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\* Lezione delle Monete di *Bernardo Davanzati*. Fiorentino, 1588.—Discorsi et Relazioni sulle Monete del regno di Napoli di *Gian Donato Turbolo*. Napolitano, 1629.

ordered state of a currency, and of the theory best adapted to avoid such a disorder. Ten very distinguished treatises, published in Italy since the middle of the eighteenth century, by men of powerful understandings and most distinguished for the eminent offices which they had held, attest, at once, the greatness of the evil and the impotence of the remedy.\* Existing circumstances have predominated over human combinations, and Italy has always been remarkable for the worst currency and the best works on money.

The English writers were also aware of the obstacles which a vicious monetary system opposes to the progress of wealth: but the measures, pointed out by Locke and Newton, remedied the evil in England, and the Bank subsequently contributed to guard against its recurrence.†

It appears, that before the middle of the eighteenth century, the French had not paid any serious attention to their monetary system. In vain did the people complain against its defects; in vain did they submit to the greatest sacrifices: their complaints were listened to, their sacrifices accepted, but recourse was

\* *Montaneri, Broggia, Galiani, Neri, Carli, Genovesi, Beccaria, Bandini, Vasco, et Corniani.*

† To this praise the Bank of England, unfortunately, has no longer any claim, since its late issue of bank tokens, worth scarcely two shillings and sixpence, at three shillings: so that the same quantity of silver as was formerly contained in fifty shillings, now represents sixty.—See the *Speech of Mr. Johnstone, on the third reading of Lord Stanhope's Bill*. Booker. 1811.—T.



had to mere temporary measures, which are always impotent against urgent evils. Statesmen were even inclined to fancy the calamity less than it was pretended to be; their ignorance stifled their remorse; and we shall presently find, that he who first wrote on that subject in France, although a very enlightened man in other respects,\* firmly believed the evil which was complained of, to be merely imaginary, and to have no way impaired either public or private wealth. Can we wonder, after this, at the slow progress of wealth in France,—in a country where it ought to have surpassed that of all other nations, had her inhabitants known how to avail themselves of her natural advantages?

While, in Italy, philosophers were endeavouring to regulate the circulating medium of gold and silver, and in France every regulation was imprudently derided, a more particular attention was paid in England to the influence of the medium of exchange upon wealth; and some English writers† did not hesitate to maintain that wealth depended on the lowering of the interest of money, were it even forced.

The exaggeration of this opinion did not tend to its discredit; it was faithfully followed in England for nearly two centuries, and it constantly regulated the views, determinations, and financial measures of her legislature and government. Her bank, her sinking-fund, her public credit, are all built upon the principle of the utility of lowering the interest of money.

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\* *Melon*, *Essai Politique sur le Commerce* en 1734.

† *Thomas Culpeper*, *Sir Josiah Child*, *Locke*, *Paterson*, and *Barnard*.

This doctrine, which was introduced in France by the famous *Law*, was as fatal to that country as it had proved beneficial to England; and the reason of this difference is easily perceived. When *Thomas Culpeper* in 1641, *Sir Josiah Child* in 1670, *Paterson* in 1694, *Locke* in 1700, and *Barnard* in 1714, solicited the lowering of the rate of interest, public opinion had already anticipated their efforts. The interest of money had been lowered in all private transactions, and the law did nothing but countenance the general disposition of the people.

The case was widely different in France. When *Law* proposed to lower the rate of interest by indirect and forced means, confidence was destroyed, the discredit general, and money hoarded; it could scarcely be had even at the highest interest.

The two countries were in a totally different situation, and by an infallible consequence, the measure which succeeded in England, failed, and must necessarily have failed, in France, where it produced the most disastrous effects, and formed one of the most lamentable periods of the history of her wealth. May this event be a lesson to all governments, and guard them against absolute principles in political economy, and, above all, against specifics which the science disclaims, and which are an insult to reason!

Shaken in its very foundations by the doctrine of the forced lowering of the rate of interest, and by an excessive paper-circulation, wealth, in France, had no longer any solid basis, fixed principle, or steady direction. Though it was still supposed to have its source

in foreign commerce, and in the abundance of gold and silver, which are to be obtained only by commerce ; people yet could not perceive how a good metallic currency increases and preserves wealth.

In the midst of this general disposition of men's minds, a writer, remarkable for his knowledge, information, and talents, gave them a fresh impulse by starting the most whimsical and revolting paradox. *Melon* pretended " that the weight and fineness  
" of money ought to be exclusively attended to,  
" and not its current value, which is indifferent,  
" and which, having been raised from one to above  
" sixty, without injuring commerce and finances, could  
" never be prejudicial to either."

This assertion was completely destructive of the mercantile system, since it debased their gold and silver currency, and afforded the means of increasing it by augmenting its numeric value. Hence it excited a lively controversy between the French and Italian writers. *Dutot* in France\*, and the Italian authors quoted above, proved to demonstration that a metallic currency facilitates exchanges merely on account of the value of the metals of which it is composed, and up to that value only ; and that, whenever this fundamental principle of circulation is lost sight of, considerable losses accrue to individuals and to the state.

The result of this discussion, as generally happens in almost all controversies, proved very different from

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\* *Réflexions Politiques sur les Finances.*



that which was expected. It was inferred, that gold and silver, which, till then, had been considered as true wealth, are only the instruments of its circulation; and this view of the subject gave birth to fresh inquiries into the nature of wealth.\*

Dr. *Quesnay* in particular acquired great celebrity by the new and transcendent views of his Theory of the Sources of Wealth.

He does not place the source of wealth in commerce, because all its operations are limited to the conveyance of the produce of the soil and industry from one place to the other.

Neither can industry aspire to this eminent prerogative; because it only transforms the territorial produce into different shapes, without adding any thing to its quantity; and because its productions are only the material representatives of the produce of the soil which the manufacturer has employed or consumed.

Land alone is the true source of wealth; because it produces every thing that man desires for the supply of his wants, for his enjoyments, his pleasures, and his fancies; and because it constantly re-produces a quantity superior to what has been consumed to effect its re-production. This excess of re-production, this gratuitous gift of the soil, this net produce, is the only fund that can be employed to encourage the progress of labour, to reward its success, to promote improvements, and indefinitely to increase the sum of public and private wealth.

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\* *La Moneta non è Ricchezza, ma immagine sua ed Istrumento di raggirarla.* Galiani della Moneta.

Agricultural labour, by a necessary consequence, is the only productive one ; all other labours are barren and unproductive.

By another consequence not less just, the surplus of the produce of the soil above all expences to obtain it, being a gratuitous gift of the land, ought to belong to the land-owners ; they alone can distribute it to the other classes of the community ; which circumstance gives them the character of paymasters, and to those who receive it the character of mercenaries.

On this respective paying and being paid, the economists built the relative rights of governors and governed. They asserted, that the land-owners, as paying, ought alone to share in the government ; and that all those who are paid, cannot take any part in it without an evident and manifest usurpation. And, finally, *Dr. Quesnay* maintained that, the net produce being the sole disposable wealth, the public revenue can only be derived from part of this produce ; that the act of sharing in the net produce renders government a co-proprietor of the soil ; and that this co-proprietory constitutes its right to government ; which right is limited by its co-proprietors.

This doctrine caused a strong sensation. It presented an idea simple and easy to comprehend ; flattered the pride of the land-owners, that important class entitled to so much regard and consideration ; and had a tendency to mitigate the lot of the husbandmen, the most numerous and undoubtedly the most wretched portion of inhabitants in every country and under all governments ; yet its success was not equal to its brilliant fame. With the exception of two authors who

attempted to propagate it in Italy\*, all those who at that time wrote on subjects connected with political economy in England and Italy, continued more or less attached to the system of foreign commerce.

*Sir James Steuart*, in England, published, in an extensive work, a complete theory of the mercantile system; and as if he had wished to oppose it to the theory of the French economists, he distinguished two sorts of agriculture, one abusive, or useless, which provides only for the maintenance of the husbandmen, and is of no benefit to the community; the other useful, which produces not only the subsistence of the husbandmen, but also that of all other classes of the community, and which he calls commercial agriculture.†

But it was particularly in Italy that the mercantile system met with eloquent and celebrated panegyrists; *Genovesi*, *Beccaria*, *Carli*, *Verri*, made wealth depend on the unlimited liberty of foreign commerce, and triumphantly refuted the system of the French economists. At that time the Italians infinitely surpassed the rest of Europe in the science of political economy; they kept this superiority until *Adam Smith* inquired into the nature and causes of the wealth of nations‡, and combating the mercantile and agricultural system with weapons equally formidable, assigned other principles

\* *Discorso Economico dall' Archid. Bandini.*

*Paoletti dell' Annona.*

† *Sir James Steuart's Inquiry into the Principles of Political Economy.* 1760. book i. ch. 14.

‡ In 1776.



to political economy, and was, as it were, the creator of the science. But it must be owned, that this justly celebrated writer, by not separating the controversial from the dogmatical part, has rendered his work rather diffuse and obscure; and that it is sometimes difficult to discover his precise tenets on the sources of wealth.\*

A modern English author (the Earl of Lauderdale) has even asserted that Adam Smith had no fixed opinion on that important point. The noble Lord grounds this strange assertion upon several passages† extracted from the work of that celebrated writer.

Indeed Adam Smith in one place states, that “ the  
“ annual labour of every nation is the fund which  
“ originally supplies it with all the necessaries and con-  
“ veniencies of life, which it annually consumes, and  
“ which consist always either in the immediate pro-  
“ duce of that labour, or in what is purchased with  
“ that produce from other nations.‡”

Elsewhere. — “ Lands, mines, and fisheries,” are

\* The circumstance, that the valuable treatise of Adam Smith is incumbered with highly important, but perhaps too extensive and rather misplaced digressive accompaniments, has led many students of political economy to wish for a more easy access to the science, and produced several elementary works in France and Germany. It was also with the view to smooth the approach to the science, that I discussed the elements of political economy in regular order and succinct language, in *An Introduction to the Study of Political Economy*, published by Cadell and Davies, Strand; 1811.—T.

† *Earl of Lauderdale's Inquiry into the Nature and Origin of Public Wealth.* Edinb. 1804. p. 116.

‡ *Adam Smith's Wealth of Nations*, eleventh edition. London, 1805. Vol. i. page 1.

regarded by Adam Smith, as “ replacing with profit  
“ not only the capitals employed on them, but all the  
“ other capitals employed in the community.\*”

In another place, plain reason is stated by him to dictate, “ that the real wealth of a country consists  
“ in the annual produce of its land and labour.†”

However, in another part of his work he teaches, that “ land and capital stock are the two original  
“ sources of all revenue, both private and public: capital stock pays the wages of productive labour, whether employed in agriculture, manufactures, or  
“ commerce.‡”

Lastly, Adam Smith in another part of his work asserts, that we ought to consider land, labour, and capital, as being all three sources of wealth: for  
“ whoever derives his revenue from a fund that is his  
“ own, must draw it either from his labour, his stock,  
“ or his land.§”

All these passages, which it is difficult to reconcile, appear to warrant the conclusion drawn by Lord Lauderdale, that “ Adam Smith seems to have had no fixed  
“ ideas in relation to the sources of wealth.” But after having attentively studied his work, we are fully convinced that he has placed the source of wealth in  
“ labour, which fixes and realizes itself in some particular subject, that lasts for some time at least after  
“ that labour is past, whose power is augmented by

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\* Wealth of Nations, vol. ii. book ii. chap. 5. page 48.

† Ibid. vol. ii. book iv. chap. 1. page 165.

‡ Ibid. vol. iii. book v. chap. 2. page 254.

§ Ibid. vol. i. book i. chap. 6. page 81.

“ sub-division, which is developed by the freedom of  
“ trade, improved by competition, and proportioned to  
“ the extent of the market, capitals, and wages.”

This theory, admirable for the greatness of the mind by which it was conceived, commands still greater respect for the profundity of the views of its author, the sagacity of his discoveries, and his concatenation of effects with causes, and of consequences with principles. The usefulness of each kind of labour, of every employment of capital, of each species of commerce, and of every sort of consumption, is submitted to calculations that are sometimes strict, frequently plausible, and always ingenious. Even when we are forced to doubt their accuracy, the very principles which the author has established serve to guard us against their fallacy, and manifest again the beauty of his doctrine.

If, after having earnestly meditated and mastered the theory of that important work, we direct our attention to one that was published nearly at the same time by the abbé *Ortes* at Venice, we are not a little surprised at the eccentricities of the human mind\*.

It is difficult indeed to conceive how a subject which drew from Adam Smith so many just observations, ingenious combinations, and important results, could appear to the abbé *Ortes* nothing but a brilliant chimæra, a delusive dream, a captivating error.

Like Plato, the Abbé fancies no advantage or benefit can accrue to any individual or nation, but another individual or nation must suffer an injury, and no one

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\* *Economie Nationale, par l'Abbé Ortes.*



can be a gainer without another being a loser. With him, wealth, grandeur, and power, are synonymous with pillage, robbery, and ruin: they are but ephemeral and precarious, as they cause an increase of population which soon re-establishes the level of the wants of misery and poverty; so that the unemployed, the idle, and the poor, are always in ratio of the labouring, industrious, and rich. The author even goes farther; he considers the idleness of the unemployed as the result of the extreme avidity of the laborious. Were the latter less covetous, less active, and less skilful, the unemployed would be less idle and less poor; and there is not any poor man that would not rather be indebted for his means of subsistence to his labour than to the labour and charity of others.

I shall not pursue any farther this monstrous and discouraging system, which holds out the painful prospect of unavoidable and continued misery. Fortunately, it rests upon false notions of political economy, and will be completely refuted in the sequel of the work which I have undertaken. I hope, at least, I shall make it evident to the least sagacious and most inattentive observer, that in the theory of wealth proceeding from the exchanged produce of labour, there is no robbery nor injury committed against any individual; that, on the contrary, all may be benefited and rich.

Ever since Adam Smith established this fundamental truth of his system, no other theory has been proposed; and though he may not have assigned the limits of the science, he yet has so well determined its

principles, that it will be impossible to go astray and mistake the true doctrine.

The Earl of Lauderdale has, it is true, criticized some fundamental points of his doctrine: but the criticisms of the noble Lord rather tend to subvert the established system, than to create a new one.

This noble author derives wealth from land, labour, and capitals: he even attempts to determine the share of each of these sources in the formation of public wealth.

His Lordship states, that, in the earliest stages of society, man derives the greatest portion of his wealth from the surface of the earth: but that this period is of short continuance, because nature, whilst she has implanted in him the seeds of an unbounded variety of desires, has scattered with so sparing a hand the means of satisfying them, that the assistance of labour is early called in either to increase the quantity or improve the quality of the productions of the soil: and that he can accomplish either by means only of capitals, which shorten his labour and enable him to perform such as would have been above his strength.

Whether these remarks be well founded or not, is of little consequence in this place: it is sufficient to observe, that they only tend to modify and not to raise a new theory of the sources of wealth; and on this account we shall not dwell upon them any longer.

Such are the various systems concerning the sources of wealth. Though they appear at variance, or at least offer different points of view, their difference is however merely nominal, and of very little importance to the science.

The partisans of the mercantile system, for instance, do not think, and have never asserted, that the precious metals which commerce accumulates in a country are not derived from the produce of land, labour, and capitals ; on the contrary, they uniformly take it for granted that it is so.

Again, the French economists, as founders of the agricultural system, though very positive in their doctrine, do not assert that the soil spontaneously yields wealth ; on the contrary, they allow that, if land be the source of wealth, it is agriculture that multiplies it : and by agriculture they understand the labour and stock advances of the husbandman : they even admit that the exchangeable value of the agricultural produce is the measure of the wealth of a nation ; and that this exchangeable value can only be obtained by the free concurrence of the home and foreign trade : thus the French economists themselves derive wealth from land, labour, capitals, and commerce.

By placing the source of wealth in labour, which fixes and realizes itself in some permanent object, Adam Smith also admits the concurrence and co-operation of land, labour, capitals, and commerce.

Lastly ; the system of Lord Lauderdale differs from the other systems only as far as his Lordship assigns a particular importance to capitals. In every other respect the noble author co-incides more or less with the agricultural system and the system of labour.

Thus, after all, it is not properly concerning the sources of wealth that the different systems vary ; they all come pretty nearly to the same conclusion on this important point ; they all implicitly acknowledge



that wealth is produced by the concurrence of labour, land, capitals, and commerce: they only differ respecting the more or less important share which they assign to each of these causes: in this only consists their contradiction, or their difference; it is herein lies all the difficulty of the science. The only problem which is actually to be resolved, is this:—Of those three causes, labour, capitals, and commerce; which is best calculated to produce public and private wealth? This is the point which it is useful to discuss, and which I shall attempt to settle in the following books.

## BOOK II.

OF THE VARIOUS SYSTEMS CONCERNING LABOUR  
CONSIDERED AS A SOURCE OF WEALTH.

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INTRODUCTION.

IN every system of political economy, labour has the greatest share in the formation, increase, and preservation of wealth. If the labourer finds the precious seeds of wealth in the spontaneous gifts of the soil, he fertilizes, multiplies, varies them by his activity, his skill, and his industry; and obtains results so new, so different, and so remote from their nature, that one might be tempted to regard him rather as the creator than as the co-operator of wealth; and it is, undoubtedly, this circumstance which has induced a modern French writer to define wealth, *an accumulation of superfluous labour*.\*

Is this productiveness of wealth exclusively reserved to one, peculiar to a few, or common to all sorts of labour? Is there, among the different kinds of labour, any one more especially productive, and favourable to the progress, of wealth? Is agriculture more

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\* *Principes d'Economie Politique*, par B. V. F. Canard. Paris; 1801.

conductive to wealth than manufactures and commerce? What are the means of rendering these divers labours more productive and more profitable? Which are the obstacles that oppose their progress and impede their success?

These are the different points of view under which labour has been considered, and concerning which numerous controversies have arisen, which it is interesting to investigate and to appreciate, for the purpose of forming correct notions of this important part of political economy.

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## CHAP. I.

*Is the productiveness of Wealth exclusively reserved to one sort of Labour?*

THE French writers, known by the name of Economists, or Physiocrats, assign, exclusively, to agricultural labour the power of producing wealth, and regard every other labour as barren and unproductive. They, however, do not deny the usefulness of barren and unproductive labour: they only limit its utility, and assert that, with regard to manufactures, this utility consists in the adaptation of the agricultural produce to consumption; with regard to commerce, in its conveyance to the consumer; and with regard to sciences, literature, and arts, in their defending, protecting, and encouraging all kinds of labours; in multiplying the enjoyments of life, and in extending and



improving the moral and intellectual faculties of man : services, no doubt, of the utmost importance, but which only modify, or transport the agricultural produce, add nothing to its quantity, and yield no new produce : whence they infer, that agricultural labour is the only productive one, and that all other labours are barren and unproductive.

This system made a great noise by its novelty, but was not otherwise successful ; it was not adopted by any English or Italian writer\* ; not even by those who consider agricultural labour as the most productive of all labours. I should not, therefore, have ranked it among those systems, the examination of which has any interest for the science ; and the feeble sensation which it caused would have alike justified and excused my silence.

But the apology which one of our most esteemed writers on political economy†, has lately made of this system, the plausible arguments on which he relies, to make it triumph over the doctrine of Adam Smith, and over the opinion of all the writers who have

\* Except the Curate *Paoletti*, in his work *dell' Annona*, quoted before.

† The French Senator *Germain Garnier*, in his notes annexed to his *Translation of Adam Smith's Wealth of Nations*. And, later still, the Economists have found, in England, with regard at least to their principal tenet, that the soil is the grand source of wealth, a very ingenious advocate in *Mr. William Spence*, of Hull, F. L. S. See his two pamphlets, *Britain independent of Commerce*, which has passed through six or seven large editions ; and *Agriculture the Source of the Wealth of Britain*. Cadell and Davies ; London ; 1808.—T.

opposed the French economists, would not allow me to pass it over in silence. I shall not regret the discussion into which this opinion betrays me, if it serve to develop the fundamental principles of political economy, which are still too little, or not familiarly enough known, even to the most enlightened men.

Political economy has experienced the fate of all sciences; tenets have preceded observation, visions have been attended to instead of facts, and systems taken for the science itself. Instead of observing labour, in its various relations, combinations, subdivisions, and points of contact with wealth; its numerous ramifications have been separated, each has been considered as a whole endowed with properties which belong only to labour in general. This has given birth to mistakes, paradoxes, and systems; which would have been avoided if a contrary conduct had been observed, and a different road taken, from that which has been followed.

In the present state of civilization, we know labour only through the exchange of its produce; in this exchange, every labourer, every family, every class of the community, every nation, find means of supplying their wants, procuring some comforts, obtaining more or less enjoyments, and reaching a more or less elevated point of prosperity, power, and happiness. Though the advantages which may accrue to every labourer from this particular and general interchange, are uncertain; yet, all work unremittingly, they exert all their forces, activity, and skill, and stop only at the point which they cannot pass. This intensity of general labour occasions an abundant

produce in all its ramifications ; it diffuses comforts, and is the cause of the surplus of produce above consumption, being economised, accumulated, and a stock reserved for the increase of population, the extension of general labour, and the formation of wealth.

Considered in this light, labour appears to contribute to wealth merely through its produce being exchanged, and it is by this exchange alone, that its particular and general properties ought to have been estimated.

But it is not thus that labour has been appreciated by the French economists ; they considered it singly in its different kinds, opposed one to the other, and in this imaginary point of view pronounced it productive or unproductive at their pleasure.

To examine whether it be possible to separate labour from the exchange of its produce, would be a very interesting inquiry ; but the discussion would be idle, since it appears evident that unexchanged labour cannot produce any wealth.

Under the supposition that labour be not exchanged, every individual is reduced to work, to procure the articles necessary for his food, his raiment, and his dwelling ; and whatever may be his dexterity, his ardour, and activity, he is badly provided with what is absolutely necessary, cannot easily attain any kind of comfort, and cannot possibly obtain any surplus ; the only means of growing rich. Thousands of ages would roll along, and the unexchanged labour of an individual would not be able to produce any wealth.

Nations of hunters and fishermen, assuredly, labour



much ; their labour is even toilsome and dangerous ; and yet, far from being conducive to wealth, it always leaves them in misery and indigence.

If the condition of nations of shepherds be less wretched than that of hunters and fishermen ; the utmost they can do is to supply their wants ; and if, at some periods, they have ranked among rich nations, their wealth was not the produce of labour, but of the spoils of the wealthy nations which they plundered. Their wealth even was not of long continuance ; it disappeared as rapidly as it had been acquired. The Tartars, several times, plundered Asia and Europe ; Genghis Kan, Tamerlan, and Attila, transported immense riches to the deserts of Tartary, without being able to render them productive ; and nothing remains of their power and grandeur but the remembrance of their ferocity and rapacity. Almost from the creation of the world, the Arabs of the desert have continued to rob every nation, and every individual that has the misfortune to come in their way ; and yet they never could grow rich. They will for ever continue poor, because they live on a produce of labour little susceptible of being exchanged, or the exchange of which is extremely limited.

Agricultural nations, restricted to mere agricultural labour, and destitute of the means of interchange with other nations, have never existed : we cannot even form an idea of such nations, without going back to the time when they began to be known by other nations : and surely they were then very far from being wealthy ; their condition was rather

wretched, and bordering on extreme poverty\*. It is well known, in what condition Greece, Africa, and Italy, were found by the Egyptians and Phœnicians, when they sent colonies to civilize these countries. The situation of the North of Europe was not happier when the Carthaginians, Phocœans, and Romans, carried thither the arts of civilized life: they were, no doubt, less miserable than nations of shepherds, hunters, and fishermen; they had more means to supply themselves with food, raiment, and dwellings: but they had not got so far as to accumulate any surplus, and had not the least idea of riches.

Whatever be the kind of labour they are employed in, wealth cannot be acquired, increased, and preserved, among any people, but when commerce, bringing foreign in exchange for the national produce, affords greater means of subsistence, more comforts and enjoyments, and particularly when it directs their labour to new objects, with the utility of which they were unacquainted, and in which they find new

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\* In 966, says Bishop *Fleetwood* in his *Chronicon Preciosum*, "a palfrey was worth 10s.; an acre of land was purchased for 1s.; and an hide of land, which contained 120 acres, at one hundred shillings." See *Anderson's Historical and Chronological Deduction of the Origin of Commerce*, 2 vols. fol. London, 1764, vol. i. book iii. p. 52. At present, ten acres of land are worth twenty good horses, and more. The cheapness of the land in the tenth century is accounted for by the great difficulty of and obstruction to the sale of the barons' lands until the statute of King Henry VII. gave leave for their sale. And this circumstance confirms the author's theory, that it is the possibility of exchanging it, which gives value to any produce of labour.—T.

instruments of exchange and wealth. Such has every where been the progress of labour, civilization, and wealth.

Although, the physical revolutions of the globe, the political convulsions of empires, and the lapse of time, left us but insufficient monuments to trace the progress of wealth ; yet its having been the work of commerce and of the industrious activity of manufacturers, cannot possibly be doubted.

It was from Egypt and Phœnicia that issued the numerous colonies which civilized Greece \*.

I shall not examine whether the Egyptians had any commercial object in view in this colonization ; this would not agree with what has been stated of their religious aversion to navigation ; or whether they merely wanted to get rid of a population they could not maintain. This inquiry is foreign to my subject, and would lead me too far from my plan.

But I think no reasonable doubt can be entertained respecting the destination of the colonies which the Phœnicians successively carried to Greece, to the islands of the Archipelago and the Mediterranean, to the shores of the *Ægean* Sea, of the *Euxine* and the *Black* Sea, and into Italy, Gaul, Spain, and Africa. These colonies were as many factories, which attracted the wandering and savage tribes of the neighbouring countries by the lure of new enjoyments, by the captivating exchange of commodities with which they were over-abundantly furnished and for which they did not care, for those which they ardently desired ;

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\* *Voyage d'Anacharsis.*



and, above all, by the prospect of a less precarious, less toilsome, and more secure existence \*. These colonies were as many staples, which opened new channels to the commerce of Tyre and Sidon, and procured new consumers for the produce of their industry. Thus the interests of commerce have been the promoters and instruments of the civilization of that part of the world; and what is very singular, the account of the first historical times agrees with that which modern history gives us of the civilization and wealth of America. This similarity of the most remote times with those nearer us, affords a sufficient proof of the progress of wealth and civilization in times with which we are unacquainted, and authorizes us to infer with certainty, that commercial exchange has been for all nations the road to wealth.

It is therefore difficult to conceive that agricultural labour should alone be productive of wealth, and that all other labours should be barren and unproductive. If, like all other labours, agricultural labour co-operates in the creation of wealth merely by the exchange of its productions; if it has no value but through this exchange, we cannot exclusively allow the productive faculty to it, and affix to all other labours the stigma of a shameful barrenness †.

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\* Canaan in *Sam. Bocharti Geographia Sacra*. See *Bocharti Opera omnia*. Lugd. Bat. 1692. 3 vols. fol.

† “ On examining the labours that produce wealth, those that circulate it, and those that maintain the order and tranquillity essential to its preservation and increase; we perceive that they are

The French apologist of the doctrine of the economists, whom I have mentioned before, observes that  
 “ the labour of husbandmen is productive of a net  
 “ produce ; whilst the labour of artisans and manu-  
 “ facturers is not productive of a net produce.”

He gives to this observation an elucidation which it is important to record here, notwithstanding its length ; that an accurate idea may be formed of the system which he defends.

“ This distinction” (between labour productive of a net produce and that which is not productive of a net produce) “ is built,” he says, “ upon material differences pregnant with effects not only various, but even opposite. It is therefore unjustly that Adam Smith rejects this distinction, and asserts that there is between the effects of these two sorts of labour a difference merely of more or less.

“ Agricultural labourers enrich the state by the produce of their labour : commercial and manufacturing labourers, on the contrary, can only enrich it by what they save of their own consumption. Indeed, the labour of artisans and manufacturers can add nothing to the value of the raw material but the value of their labour, that is to say, the amount of the wages and profit which that labour must have obtained according to the rate of wages and profit of stock usual in the country. Conse-

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“ all necessary ; and it would be difficult to say which is the most useful.” *Le Commerce et le Gouvernement, par Condillac. Partie i. chap. 10.*

“ frequently, there are two differences to be observed  
“ between the labour of this class of labourers and  
“ that of husbandmen.”

“ The first of these differences is relative to the  
“ state in general. The labour of artisans and manu-  
“ facturers does not alter the quantum of wealth  
“ existing in the community ; the labour of husband-  
“ men, on the contrary, adds to the totality of exist-  
“ ing values. After having replaced what the  
“ labourers have and might have consumed during  
“ their labour, it has given birth to a fresh value,—  
“ it has produced a real increase of the general mass  
“ of wealth belonging to the community ; in short,  
“ it has afforded a net produce.

“ The second difference is relative to the indivi-  
“ duals who gather the fruits of labour : the labour of  
“ artisans and manufacturers re-imburses the wages  
“ and profits of those who have been co-operators of the  
“ production ; it gives the labourers a reward which  
“ they have purchased with their labour ;—it affords  
“ to the undertakers an indemnity which they have  
“ purchased with the service of their capital and the  
“ risk to which it has been exposed. But the labour  
“ of husbandmen, after having discharged the same  
“ reward and the same indemnity, yields over and  
“ above this a produce which is not purchased by any  
“ labour, service, or risk ; a produce completely  
“ gratuitous, which will be consumed by individuals  
“ that have not in any way co-operated in its pro-  
“ duction.

“ These remarkable differences produce conse-  
“ quences which merit observation.



“ 1. As the labour of artisans and manufacturers  
 “ does not open any new source of wealth, it can  
 “ prove beneficial only by means of advantageous  
 “ exchanges, and has a mere relative value ; a value  
 “ which it will not obtain when there is no opportunity  
 “ left to gain by the exchange, and the foundation  
 “ of which is consequently uncertain and precarious.  
 “ Agricultural labour, on the contrary,  
 “ opens a new source of commodities, which is lasting  
 “ and permanent, not dependent on any external  
 “ circumstances, and which, as it furnishes a real  
 “ supply to consumption, necessarily increases at  
 “ once population and the national power.

“ 2. As the labour of artisans and manufacturers  
 “ cannot add any thing to the general mass of the  
 “ wealth of the community, except the savings made  
 “ by the capitalists and paid, or mercenary labourers,  
 “ it may, it is true, tend by that means to enrich  
 “ the community : but it has that tendency from a  
 “ power which is, necessarily, continually decreasing.  
 “ In a flourishing country the continual increase of  
 “ labourers tends to reduce profits to the lowest rate  
 “ at which a capital may be employed ; consequently,  
 “ these two causes continually operate to render the  
 “ savings more and more difficult, and in the end  
 “ absolutely impossible \*.”

This apology of the exclusive productiveness of

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\* *Recherches sur la Nature et les Causes de la Richesse des Nations*, par Adam Smith. Traduction nouvelle, avec des Notes et Observations par *Germain Garnier*. 5 tomes. Paris, 1802. Vol. v. note xxix. p. 262.—T.

agricultural labour is built upon the supposition that its produce has a value of its own, while the productions of all other labours have no value but what they obtain by being exchanged: but this supposition is evidently repugnant to the nature of things, to reason, and to the fundamental laws of political economy.

Of the agricultural produce, one part is destined to replace that which has been consumed by the husbandman during his labour; this part has no value of its own, real, and independent of all exchange; it is, as it were, merely the instrument of agriculture destined to supply absolute and indispensable wants; it is not capable of a surplus, and consequently cannot contribute to the formation of wealth.

The other part, which is over and above what has been consumed by the husbandman, and which is called the net produce, has no value as long as it remains in the hands of the husbandman. The stock of corn in the granaries of the farmer, of wine in his cellars, of wool, silk, hemp, and flax, in his magazines, is no wealth for him, if, not being able to consume these commodities, he be likewise unable to find any consumers for them, and if he have no other prospect than to witness their destruction and annihilation by all-devouring time.

It is only when this net produce above the wants of the husbandman departs from him to be consumed by others, that it becomes useful, obtains a value, and forms one of the elements of wealth: but there are only two ways of operating this transmission,—by a free gift, or by a cession against an equivalent.

The former cannot be practised for any length of

time, and has never yet contributed to the wealth of any nation. Hospitality among those who are on the lowest steps on the scale of civilization, benevolence among those more civilized, and charity among those whose civilization is heightened by religion, have never been of great assistance to augment the population, wealth, or power of any nation.

The second way, I mean the cession of the net produce against an equivalent, consisting either in a material produce or in personal services, can alone confer a value upon agricultural labour, and renders it equally useful and beneficial to private and public wealth: but in that case its value is relative, and, like the value of all other labour, dependent on its being exchanged; it does not differ from, and is absolutely upon a par with other values. In this general concurrence of values, the productiveness of labour depends neither on the abundance of its produce, nor on its greater or smaller utility, nor on any other particular consideration: it only depends on the laws by which exchanges are regulated, which we shall establish hereafter: these alone determine the productiveness, or barrenness of labour; and as scarcely any labour is undertaken unless called for by the prospect of being exchanged, or at least as no labour is long continued without such a prospect, we may conclude with certainty that agricultural labour is not exclusively productive of wealth.



## CHAP. II.

*Is Productiveness peculiar to some or common to all kinds of Labour?*

THE impression made by a paradox is not always effaced by its being refuted: it subsists some time after its refutation, and may yet mislead the best understandings. Adam Smith, who triumphantly refuted the paradox of the exclusive productiveness of agricultural labour, completely revived it by accusing of unproductiveness any labour which, after it is over, does not fix and realize itself in some permanent object. By denying the productive faculty to any labour which does not terminate in a material and permanent produce, and by supposing that wealth depends on the numerical proportion between the individuals employed in useful labour\* and those who are not usefully employed, he propagated the fallacy which he had so victoriously overthrown.

But I have already shewn, in the preceding chapter, that it is not by the greater or smaller quantity of the produce of divers labours that their relative and absolute productiveness can be judged of, but by the facility with which their respective productions can be exchanged and by the estimation in which they

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\* Adam Smith's *Wealth of Nations*. Eleventh edition, 1805: vol. i. p. 2.

are held. The facility of being exchanged has no regard either to the quantity, materiality, or permanence of productions; it is determined by other principles, obeys other laws, and follows other rules, which we shall fix hereafter.

At present, it will be sufficient to observe that a labour, which, after it is over, does not fix and realize itself in any permanent object, may be exchanged for the material productions of other foreign and national labours, just as well as these productions are exchanged for each other.

A foreigner, who consults either an English physician about the state of his health, an English lawyer about his affairs, or an English architect about the plan of a mansion, and remits five guineas for their opinion, confers upon these divers labours a productiveness equal to any labour whose material produce, on being exchanged with a foreigner, would have brought five guineas, or a commodity worth five guineas, to England. There is in this respect no difference between these various labours; they are all equally productive of the five pieces of gold coin for which they have been exchanged.

Now, whatever happens with a foreigner in the exchange of any labour that gives no material produce, occurs in the exchange of that labour at home. There is no difference between the labour of the joiner who makes a table which he exchanges for a quarter of wheat, or a sum of money that will purchase a quarter of wheat, and the labour of a fiddler which gains him a quarter of wheat, or a sum of money that will purchase a quarter of wheat. In both cases a quarter

of wheat is produced to pay for a table, and a quarter of wheat is produced to pay for the pleasure given by the fiddler.

It is true, that after the quarter of wheat has been consumed by the joiner, there still remains a table ; and after the wheat has been consumed by the fiddler, there remains nothing : but the case is the same with many labours that are reputed productive. Those productions of agricultural labour which only serve to gratify sensuality, and which, far from contributing to the subsistence of man, often impair his health, are justly considered as the result of productive labour, although there be nothing permanent left after they are consumed. Consequently, it is not by what remains after consumption that we may judge whether a labour is productive or barren ; it is simply by the production obtained in exchange which it causes to be produced. As the labour of the fiddler is as much the cause of a quarter of wheat being produced, as the labour of the joiner ; both labours are equally productive of a quarter of wheat, although one, when it is over, does not fix and realize itself in any permanent object, and the other is fixed and realized in a permanent object.

It is pretty generally supposed, that exchanging productions against labours which give no material produce is an injury done to the productive classes of the community, and impairs by as much their reproductive faculties ; in consequence of which supposition, the French economists wish to increase the number of husbandmen, and to reduce that of the other labouring classes. Adam Smith also wishes to reduce the num-



ber of labourers who are not usefully occupied, to increase that of those who are usefully employed. But it should be considered, that if this wish were realized, the formation of wealth would be impossible, because consumers would be wanting for the commodities produced, and the non-consumed surplus would not be reproduced.

The productive classes do not give the produce of their labour *gratis* to the classes whose labours produce no material commodities ; they give it in exchange for the convenience, pleasure, or gratification they receive of them, and to hand them their productions they are obliged to produce them. If the material produce of labour were not applied to pay for the labour which produces no material commodities, it would not find any consumers, and its reproduction would cease. The labours productive of enjoyment contribute therefore as efficaciously to production as the labour which is reputed most productive. In this respect, the labours exclusively devoted to luxury, pomp, and the most frivolous expences,\* are productive ; they co-operate to increase the population and wealth, and contribute to the splendour and power of states.

Care must be had, however, not to stretch this principle beyond its true limits ; nor would it be wise to infer thence, that by multiplying the labours destined to gratify the passions of men, productive labours are multiplied in the same proportions.

As long as productive labours pay freely and spontaneously for such frivolous labours, we need not fear that they will exceed the bounds within which they ought to be confined for the good of private and public

wealth. Whatever propensity nations may feel for pleasure, luxury, and pomp, they do not sacrifice their means of subsistence, comforts, and fortune to this disposition ; they do not impoverish themselves for the sake of being amused, nor ruin themselves to lead a more agreeable life. The conveniencies, pleasures, or gratifications, which they require, generally follow and rarely precede the produce which is to pay for them ; and the reason of this almost universal conduct is, that every individual has the consciousness of his faculties and of the extent of his fortune.

The case is different when the labours devoted to pleasure, luxury, and pomp, are not required by the productive classes, and these are nevertheless forced to pay for them, and to pinch themselves in order to provide for their cost. It may then happen that such a forced disbursement does not occasion any surplus of productions, that it is an absolute burden to the productive classes, and diminishes wealth by whatever is not reproduced. But this never occurs, except through the fault of sovereigns or rulers of states ; and since they never can be sure that the labours of luxury and pomp with which they incumber productive labours, do not outrun the produce of the latter, they may unintentionally encourage labours that are not only barren and unproductive, but even oppressive and destructive of productive labours.

Except this case, which deserves the attention of all who are entrusted with the interests of nations and concerned for their prosperity and happiness, every kind of labour is necessarily productive, and contributes

more or less efficaciously to the formation and increase of public wealth, because it necessarily occasions the productions with which it is paid.

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### CHAP. III.

*Is there any kind of Labour more or less productive, more or less favourable to the growth of Wealth?*

THE productiveness of labour in general being established, and, as it were, demonstrated; what side are we to take in the controversy that has arisen between authors of all sects and all countries, concerning what kind of labour is most productive, and most favourable to the growth of wealth? Is there indeed any kind of labour to which all nations ought preferably to apply their efforts and faculties? This question is of the utmost importance; it is the very foundation of the science, since labour has the greatest share in the formation, increase, and preservation of wealth.

It is very remarkable, that almost every writer on this controversy has regarded the labour which is preferred in his own country as the most productive.

Thus the English writers assign the first rank to commerce and manufactures, which have always enjoyed the greatest favour in England. Adam Smith is the only one who resisted the torrent of public opinion, and dared to place agriculture above commerce and manufactures; he even went farther, he attempted to



assign different degrees of productiveness to different labours, and, in his extremely ingenious scale, placed agriculture at an immense distance above all other labours. He even was so enamoured of this opinion, that he thought he should be able to make it triumph over the authority of facts, and the experience of ages. He allowed, however, that manufactures and commerce have more contributed to increase the wealth of modern nations, than agriculture; but he thought their superiority to be owing merely to the peculiar favour which they have enjoyed above agriculture.

In France, where agriculture has always predominated, the writers on political economy have generally granted agriculture the precedence before commerce and manufactures.\*

In Italy, opinions have been divided; and according as they inhabited either the interior or the maritime provinces, the writers on subjects connected with political economy, have extolled agriculture, or manufactures and commerce.†

Amidst this struggle of contrary or various opinions, I think no satisfactory solution can be obtained on so

\* I know but two French writers who have given the preference to manufactures and commerce before agriculture; namely, *Dangeul*, in his *Remarques sur les Avantages et les Désavantages de la France et de la Grande Bretagne*, 1754; and *Forbonnais*, in his *Elémens de Commerce*.

† The Curate *Paoletti*, a Milanese; *Beccaria*, a Milanese, and *Corniani* of Brescia, rank agriculture above manufactures and commerce; *Galiani*, *Genovesi*, and *Palmieri* of Naples, give the preference to commerce and manufactures before agriculture.

important a point of the science, but by attempting to determine whether agriculture, or commerce and manufactures, are most conducive to the growth of public and private wealth, to the welfare of individuals, the prosperity of nations, and their absolute and relative power ; or, in other words, by determining which of these labours obtains the greatest value for its produce on its being exchanged ; which circumstance is, at once, the promoter, regulator, and arbitrator of wealth.

When, after having for a long time subsisted on the produce of hunting, fishing, and their flocks, men prefer to such precarious, uncertain, and limited means of subsistence, the more abundant, more various, and more certain productions of agriculture ; this direction of their labour undoubtedly opens a road to wealth : but whither does this road lead them ?

By this new application of labour, men may succeed in procuring corn and cattle for their food, and raw materials for their raiments and dwellings ; perhaps they may even acquire sufficient abilities to give convenient forms and shapes to these objects of first necessity.

But here the progress of wealth stops ; and how it could go beyond their actual wants, or how they should think of producing any surplus, or of saving and accumulating any stock, it is impossible to conceive.

Were even the inclination of mankind for propagating a sufficient inducement to accumulate, measures of foresight would be limited to individuals ; they would not always be successful, and would fre-

quently prove useless to those who should take them ; whilst they might be necessary to those by whom they had been neglected. What expedient would be resorted to in that case ? What could induce individuals or families, that had stored a surplus which they do not want, to cede this surplus to those to whom idleness, improvidence, the vicissitudes of temperature, and accidents inseparable from agricultural pursuits, had rendered them necessary ? Would they make them a free gift of their stores ? In that case, they would not be very eager to reproduce them. Would they ask for an equivalent in return ? But how could any equivalent be obtained, all agricultural productions being uniform and identic in the same country ? Under this supposition, the circulation of any surplus, if not absolutely impossible, would be, at least, extremely difficult ; and it is very probable, that, in this case, a population continually exposed to wants, for which they can obtain no supplies, would frequently be reduced to the same condition, as brutes that never multiply beyond the average proportion of the spontaneous produce of the soil.

Let us, however, admit, that the combined progress of agriculture and population should lead to the division of labour, and the separation of the labouring classes ; and let us inquire, what would be the growth of public and private wealth under this hypothesis ?

As agricultural productions afford the means of subsistence, the wages of all labour, the patrimony of all labouring classes, they would be distributed in proportion to the wants of the husbandmen, and the



progress of agriculture ; consequently, the share of the industrious classes would be small, and would not allow them to extend, to prosper, or to aspire to a free and independent condition : industry would vegetate in a state similar to that in which it is found in small market-towns and villages, and could never be drawn from this confined condition by the solitary operation of agricultural labour.

Let us advance one step farther, and connect again, by a fresh hypothesis, a chain which is broken at every link : let us suppose that the division of labour multiplies population and agricultural produce to such a degree, that the land-owners obtain their net produce without any labour ; and that this net produce is sufficiently large to procure them a comfortable and even affluent existence : how many obstacles must be overcome, how many difficulties conquered, how much time passed, before this net produce could develop the powers of industry, multiply the industrious classes, raise a great number of wealthy and populous cities, and create all the phenomena of genius, arts, and commerce ! That such would be the many and splendid results of agricultural labour, may amuse the fancy of a credulous and confident reader ; but cannot stand the test of philosophical doubts and inquiries.

I know that these observations on the slow progress of wealth in the agricultural system, are contradicted by the example of ancient Egypt, China, and North America, where agriculture has raised a numerous population, accumulated vast riches, and multiplied the benefits of civilization. But are these examples

as conclusive as some philosophers have endeavoured to believe ; and may they not be accounted for by peculiar circumstances, foreign to the agricultural system ?

The distinction of the Egyptians in casts ; the division of lands among these casts ; the influence of political, religious, and civil institutions upon each cast ; their manner of cultivating a soil rendered productive beyond measure by the overflowing of the Nile\* ; the temperance so natural to the people of the South, and so imperiously prescribed to the inhabitants of Egypt ; and, above all, the immense extent of their passive trade with the nations of Africa, Hindostan, Arabia, and Asia ; all these causes, unconnected with agriculture, explain the phenomenon of the wealth and population of Egypt, but cannot be applied to the people of the North, who live in a climate less favoured by nature, under different constitutions and laws ; who are forced, or accustomed to a great consumption ; and who would find but few resources in their agriculture, were it even encouraged by the passive trade of other nations.

The Chinese, of whom we have so many various accounts, are yet too little known to allow us to argue with any degree of certainty respecting their innumerable population, and the prodigies of their agriculture, their wealth, and their civilization. The clouds in which their mysterious opulence is enveloped,

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\* The soil requires no other expence than the seed : some sorts of grain, like doura and millet, give an incredibly multiplied produce. *De Paw, sur les Chinois et les Egyptiens.*

are rendered still more impenetrable by the contradictory narratives of travellers, and leave us no means to re-ascend from effects to causes, and to obtain certain and positive results. There is no doubt that the Chinese honour agriculture; and it is, perhaps, to their gratitude for an art productive of food and raw materials for commerce and industry, that the honours which they pay to it must be ascribed. But does this art owe its progress to its own impulse? May not the political and civil institutions of China, the extraordinary fertility of her climate\*, the innumerable channels by which her vast empire is intersected and supplied with an immense quantity of fish†, the variety of the productions of her territory, which is equal in extent to the whole of Europe; and, lastly, her passive trade with all the nations of the world; may not these circumstances have as great a share, as agriculture, in whatever travellers relate of the wealth and population of China? The problem has not yet been resolved, and is perhaps incapable of being resolved in the present state of our knowledge of the

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\* If China contains an immense population, it is because rice is the only food of the multitude; in several provinces it yields annually three abundant harvests. The soil wants no rest in China, and its produce is frequently hundredfold. *Lé Commerce et le Gouvernement*, par Condillac. *Essai sur la Nature du Commerce en général*, par Cantillon.

† It is even possible that the oleaginous parts of fish are more productive of the matter which serves for generation. This circumstance would account for the immense population of Japan and China, where fish is almost the sole food. *Montesquieu, Esprit des Loix*, book xxiii. chap. 13.



economical system of the Chinese. It would therefore be the height of imprudence to ground upon the Chinese system of political economy that of nations dwelling in a temperature less prodigal of its gifts, and in a climate which, as has been observed by one of the most celebrated French philosophers, produces nothing spontaneously but forests, stones, and wild fruits \*.

If North America be indebted to her agriculture for the rapid increase of her population and riches, her agriculture owes its growth and success to the capitals and industry of Europe; to these she owes the sale of her produce, its abundance, and her prosperity. Had she been confined to agriculture, unconnected with the Old World and without any foreign trade, she would have advanced less rapidly on the road to wealth; and instead of being quoted as an instance of the power of the agricultural system, she would afford a memorable example of its inconsiderable influence upon the grandeur and destiny of nations †.

Ancient Egypt, China, and North America, are therefore but equivocal and suspicious evidences of the power of agriculture and its productiveness of wealth.

\* *Voltaire, Essai sur les Mœurs*, vol. i, page 302. Edition of 1785.

† “In our North-American colonies, the plantations have constantly followed either the sea-coast or the banks of the navigable rivers, and have scarcely any where extended themselves to any considerable distance from both.”—*Adam Smith's Wealth of Nations*; Eleventh edition, London, 1805, vol. i. book i. chap. 3, page 31.

But were it even true that the agricultural system could by itself raise a numerous, rich, and flourishing population, it would not be productive of any great moral and political virtues, of the energy, public spirit, and eminent qualities which form great nations, render mankind illustrious, and honour humanity.

The industrious and commercial classes being necessarily limited to the lowest rate of wages, would be discouraged and degraded; destitute of talents, activity, and energy, and confined to mechanical trades, they never could ascend to the brilliant conceptions of the liberal arts; to those inspirations of genius which open new sources to the prosperity, opulence, and splendour of nations, mitigate human misery, render life supportable, and produce ages of glory and grandeur.

Possessing hereditary comforts or riches; certain of their concomitant honours, distinctions, and considerations; without rivals and competitors; and allured by none but sensual pleasures, the agricultural classes would be little disposed to devote themselves to the painful and laborious toils attendant on the study of sciences, and on the cultivation of the arts of peace and war, or their efforts would be limited to the first starts of genius, and they afterwards would drag along on the same road through the duration of ages. Such is the state of the inhabitants of China and India: it is the unavoidable consequence of the preference which these two countries have given to agriculture over industry and commerce.

The views, the hopes, the ambition of every one would be turned to agriculture, as the only lucrative,

honourable, and honoured profession; the people would be divided into two classes, one domineering, and the other servile; and the government set over both, not finding any support in the intermediate classes, would be forced to be the tool of the rich, and the agent or accomplice of their tyranny.

A constitution so vicious and so opposite to the progress of civilization, would be still more deplorable and prejudicial with regard to its foreign relations, and afford little or no security to the national independence and glory.

Whence indeed could it derive its political force, its means of resistance and attack, of power and grandeur?

The agricultural class forming more than three-fourths of the people, and being the only rich and flourishing class, could not be removed even for a moment from their agricultural labours, without this essential branch of labour being a sufferer by their absence; their produce would be diminished, and this diminution would inflict a fatal blow to public wealth and national power.

The industrious and commercial class might more conveniently be called out for the service of the state, because the defalcation of their produce would only occasion the deprivation of enjoyments, which is always easily borne. But this class would be too inconsiderable to afford any great assistance; at the utmost they would form a sixth of the population, and leave but a very small number of defenders that could never be formidable to the enemies of the state.



Were a military cast formed, and endowed with a portion of the territory, as in ancient Egypt; we need only remember how fatal it proved to the Egyptians, to be convinced that it would afford little security.

“ In none of the known periods of their history  
“ were the Egyptians ever formidable; never did an  
“ enemy enter their country, but they were subdued.  
“ The Scythians were the first who invaded Egypt.  
“ After the Scythians came Nabuchodonosor, who con-  
“ quered Egypt without meeting with any resistance.  
“ Cyrus achieved its conquest by merely sending one  
“ of his lieutenants. When the Egyptians revolted  
“ under Cambyzes, a single campaign sufficed to sub-  
“ due them. Darius Ochus reduced Egypt to a  
“ province of his kingdom. Alexander, Cæsar, Au-  
“ gustus, and the Caliph Omar, conquered Egypt  
“ with the same facility. The Mamelukes possessed  
“ themselves of that country in the time of the Cru-  
“ sades. Lastly, Selim the First conquered Egypt  
“ in a single campaign. \*”

The Chinese have experienced the same fate; they never resisted any hostile attack. Several times subdued by the Tartars, they have submitted to the yoke which it pleased the conquerors to impose upon them.

And that the calamities with which these nations have been afflicted are no unusual attendants on the vices of their system of political economy, is proved to a certain degree by the circumstance that Africa, Sicily, and Poland, which were essentially agricultural countries, have experienced the same fate, and been

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\* *Voltaire, Essai sur les Mœurs, vol. i, p. 117. Edit. of 1785.*

unable to preserve their liberty and independence, and to maintain themselves in the rank of nations.

What more striking proofs can there be required of the vices of the agricultural system with regard to political independence, national power, and public wealth? These vices equally shew themselves in the small extent of general labour, in the insulated condition of individuals, in the weakness of government, and in national impotency and general indifference. They ought to alarm all who might be blind enough to share in Dr. *Quesnay's* predilection for the agricultural system, and to suffer themselves to be fascinated by the charms with which it has been invested by his numerous proselytes, and against which even Adam Smith has been unable to guard. Agriculture can no longer be considered either as exclusively productive of wealth, or as the most productive of all labours; much less can it be regarded as possessing the eminent prerogative of forming “the natural constitution of a government the best adapted to the human race.”

Do manufactures and commerce afford the advantages which we have denied to agriculture?

“It is true, that men begin by tilling their lands  
“before they build ships to go in search of new lands  
“beyond the seas: but those who are forced to devote  
“themselves to maritime commerce, soon acquire  
“that industry, the offspring of want, which does  
“not stimulate other nations.”\*

This industry must particularly acquire a great superiority, when labour is subdivided, when the

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\* *Voltaire*, *Essai sur les Mœurs*, vol. i. p. 73. Edit. of 1785.

manufacturing and trading classes, breaking the fetters which kept them enchained to the agricultural classes, labour without waiting for the demand, submit their productions to commercial exchanges, and derive from the equivalents obtained in return, their subsistence, their comforts, and their wealth.

Their economical notions then take a new course, their relations become complicated ; the results of their commerce are lost in an obscurity so profound, that they are not always clear to the most acute and best exercised understandings, and their advantages and inconveniences are frequently mistaken. The happy effects of this revolution are not even yet completely demonstrated, and its benefits have long been in existence, though the channels through which they are poured are not yet sufficiently known and described.—Let us attempt to throw some light upon these abysses of political economy.

As soon as the labouring classes, whether agricultural, or manufactural and commercial, carry to market the surplus of their produce above their consumption, and exchange one for the other, general industry receives a fresh impulse, follows another direction, and attains a higher destiny. The producer does not wait for the produce being consumed, before he re-produces it ; neither does he limit his productions to the local consumption, or to his present and actual wants. Commerce meets production ; it stimulates the consumer by the presence of the produce, and the producer by the certitude of obtaining equivalents in return. In this system, every producer is a consumer ; all productions are thrown into the scales of a



general exchange; and commerce foment general production by general consumption.

The labour of the husbandman is no longer confined to obtain the produce necessary for his subsistence, and the wages of those who assist him with their services. He also labours to procure commodities with which he is yet unacquainted, to have a surplus, and to be enabled to purchase objects, the sight of which in the market may inspire him with the desire of possessing them.

The industrious classes do not wait for orders to labour. They create, invent, perfect the means of rendering life convenient, comfortable, and agreeable; of multiplying enjoyments and satisfying every desire; they do not embarrass themselves about the sale of their productions or the return of equivalents; they depend upon the market, which rarely disappoints their expectations.

Lastly, the trading classes are no longer reduced to a mercenary and not very lucrative hawking; they collect and keep in their warehouses the surplus of productions which have not met with any demand, and endeavour to provide consumers for it on every point of the globe where nature and the labour of man yield any productions capable of exciting desire, flattering taste, and multiplying enjoyments. In this twofold respect, the trading classes produce, preserve, and multiply wealth.

Riches now no longer consist in the proportion of produce to wants, of income to expenditure, of production to consumption; but in the accumulation of a surplus stored up for unforeseen wants, accidents,

and enjoyments. This surplus is a resource for the existing population against the uncertainty of the seasons ; it is a stock, a sort of patrimony, a premium for their increase ; by means of this surplus, man soars above the animal creation ; he avoids the calamities to which he was doomed by nature, and insures to himself a destiny which he had been originally denied. Individuals are multiplied in proportion to the surplus that is accumulated, nations prosper in the compound ratio of the mass of their surplus and the increase of their population, and public wealth results from the exchange of the surplus produce of general labour.

Any new object which is conveyed by commerce to the general market, which excites fresh desires, and which the multitude may acquire by labour, augments the emulation of the labourers, gives a new impulse to general labour, and accelerates the progress of opulence in an indefinite proportion.

When, after the discovery of the New World, that effort of genius or audacity, productions till then unknown were brought into the market of Europe, every one redoubled his exertions, activity, and industry, to procure them, and public wealth was increased by both the productions imported from the New World, and those produced in Europe to serve as equivalents.

Gold and silver, which were only circulating among the rich and prosperous classes, being, all at once, profusely scattered among the industrious and labouring classes, excited a general emulation, multiplied individual, domestic, and social relations, and pro-

duced results little observed, and yet worthy of the greatest attention, because they are immediately connected with the causes of the wealth of modern nations, the peculiar object of political economy.

If, as it must be acknowledged, property is the spring of labour and wealth, the foundation of social order, and the support of public and private prosperity; how much must its power have been augmented by the abundance of gold and silver, which caused property to reach even the poorest classes of the community, acquainted them with its value and advantages, gave them the hope of comforts, and flattered them with the idea of civil independence! What peculiar charms must they not have found in property which may be either hidden or shewn, kept or transmitted, stored up or used at the call of their passions, propensities, and dispositions, and according to the circumstances in which they are placed!

By diffusing the advantages of property among the labouring classes, the precious metals united them with the other classes of the community by the general name of *proprietors*, inspired them with sentiments of justice and mutual benevolence, and bound them to each other by the indissoluble ties of common interests.

Even governments must have felt the effects of this general impulse; they must have more carefully regulated and moderated their authority, when they perceived that it might be prejudicial to property and injurious to wealth, the basis of their strength and power.

I shall not examine here the numerous controversies



that have arisen about the effects of the plenty of gold and silver with regard to circulation ; that discussion will find its place elsewhere\* : but I may observe, that the effects which necessarily result from the plenty of the precious metals, considered merely as merchandize, belong exclusively to manufactures and commerce, and could never have taken place in the agricultural system. This shews already, at what distance those two kinds of pursuits are from each other, and how greatly their reciprocal influence on labour and wealth differs. How confined the action of agriculture, which has nothing but wages to offer to manufactures and commerce, and builds upon the portion of its produce destined for such wages, all its hopes of wealth ! How extensive, on the contrary, the action of manufactures and commerce, which put all the powers of labour into motion, multiply its produce by exchanges, and redouble their efforts in proportion to their success ! In the agricultural system, labour is paid for by the idle land-owner, who fancies himself the richer for having less to pay : in the mercantile system, labour rewards labour, and even the idleness of the wealthy ; it never receives without giving, and never gives without receiving. The universal exchange of the produce of labour enables the nations, tribes, and savage hordes dispersed on the globe, reciprocally to encourage each other to fresh labour by the hope of fresh enjoyments ; immense deserts which nature had doomed to everlasting sterility, are peopled, cultivated,

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\* See hereafter book iv, chap. 5.

fertilized ; the Hindoo renounces his indolence, and the seas that wash the Poles are rendered productive, and afford mankind new sources of wealth.

This superiority of manufactures and commerce over agriculture, which is founded on the nature of things, is also proved by the history of wealth among all ancient and modern nations.

Sidon, Tyre, Corinth, Athens, Syracuse, and Carthage, in ancient times, acquired by their industry and commerce riches of which there is no example in any agricultural nation ; and what is not less worthy of remark, their riches raised them to a degree of power and consideration to which their territory and their population would not have allowed them to aspire.

Even the immense wealth of Rome, under the republic and during the three first centuries of the empire, cannot counterbalance the authority of these instances ; because she was not indebted for it to agriculture, but to the power of her arms, the spoliation of the vanquished, and the tributes of the subdued nations.

In the middle age, Constantinople, by her industry and commerce, preserved the wealth acquired by her arms ; and these riches, thus purified by labour, protected her for a long time against the attacks of the Barbarians ; prolonged her resistance, and retarded her fall, which was hastened by her follies, disorders, and vices.

In modern times, Venice, Genoa, Pisa, Florence, the Hanseatic towns, Holland\*, and England, have

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\* The territory of Holland is only from eight to nine millions of acres. Her population does not exceed two millions of indivi-

alternately acquired, by manufactures and commerce, riches which have enabled them to act an important part in the political world, and even placed some of them in the rank of preponderating powers.

These splendid testimonies of history did not escape the attention and profound sagacity of Adam Smith ; and he has neither denied their importance nor disputed their consequences ; on the contrary, he has betrayed in several parts of his work the impressions which they made upon his mind.

In one place he states that “ it is the great multiplication of the productions of the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people.\*”

Elsewhere he acknowledges, that “ it is upon the sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself ; and it is frequently not till a long time after, that those improvements extend themselves to the inland parts of a country.†”

duals : and yet what a figure did she make in Europe in the seventeenth century ! what wars she sustained ! what forces she resisted, and what power she attained ! She is subject to frequent invasions ; her harbours are bad ; she annually spends immense sums, not to be swallowed up by the waves of the sea ; and all these difficulties have been overcome by her indefatigable industry. *Davenant*, vol. ii. page 193.

\* *Adam Smith's Wealth of Nations*, Edition of 1805. vol. i. book i. chap. 1. page. 17.

† *Ibid.* vol. i. book i. chap. 3. page 29.



In another place he admits, that “ the revenue of  
“ a trading and manufacturing country must, other  
“ things being equal, always be much greater than  
“ that of one without trade or manufactures.\*”

And yet, notwithstanding this homage paid to the power of commerce and industry, he gives the preference to agriculture. I feel almost tempted to accuse him of having contradicted himself, and to refute him by his own statements. But although this kind of refutation gives great advantages, it would be ill-timed and unbecoming towards an author so illustrious, and to whom the science of political economy owes its progress and consideration. I shall rather endeavour to discover what were the motives of his predilection for the agricultural system, and appreciate their merits and strength.

He asserts, that if social institutions had never deranged the order of things, the wealth and increase of the country would have advanced with equal steps with the improvement and cultivation of cities; and that, if public wealth has been indebted for its progress to the industry of the towns rather than to agriculture, it ought to be attributed merely to the privileges and monopolies granted to towns, to the prejudice of the country †.

Although his observations in this part of his work are extremely acute and ingenious, and although he must be acknowledged to have been right when he imputed the misery of the country to the monopoly

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\* *Wealth of Nations*, vol. iii. book iv. chap. 9, pages 25, 26.

† *Ibid*, the whole of the third book.

of the towns ; yet it may easily be proved, that, even if these particular calamities had not existed, commerce and manufactures would always have obtained the same superiority over agriculture ; because this superiority arises from the nature of things, and can be neither arrested nor impeded by the combinations of men.

Agricultural produce is common to all countries, and has every where to struggle against a general competition ; whilst commerce and manufactures are peculiar only to some countries and some governments, and have of course no general competition to encounter.

Agriculture does not require any great talents ; “ nature performs a great part of the work \* ; ” its improvements are slow, and the discoveries by which they may be hastened are soon known to all agricultural nations. The case is different with manufactures and commerce ; they require a certain intelligence, are continually improved, reach to a degree of superiority difficult to be attained, and rarely lose the superiority which they have once acquired.

Agriculture is subject to numerous accidents. Bad seasons often disappoint the hopes of the husbandman ; wild beasts devour part of his harvest, another part is spoiled and damaged ; he is constantly at the mercy of accidents, and his fortune is continually menaced. The risks of industry and commerce are less numerous, and, above all, less fatal. If there be no demand for their productions in one

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\* This is a thought of Adam Smith's.

country, they are carried to another. If, by some fortuitous or unforeseen cause, they be damaged or part of them lost, that which remains is sold dearer, and the loss is covered by the high price occasioned by their scarcity.

Agriculture cannot extend its produce beyond the extent of the territory and agricultural population; neither can it accumulate or store up large quantities of its productions, because they would require immense and costly buildings, and, above all, because they rapidly perish. Manufactures and commerce may multiply their productions without increasing the number of hands employed, and frequently even by diminishing their number. These productions may be stored up, at comparatively small expences, in proper warehouses, without any fear of their decaying before they are sold. Their consumption finds no limits but in the numbers of mankind and in the progress of general wealth, that is to say, it is unlimited.

Finally, agriculture cannot build great hopes on the improvement of its methods. Notwithstanding the rapid progress of general knowledge, and the encouragements which have been bestowed upon agriculture by governments, and the efforts of learned societies, it has not, among the most enlightened nations, advanced much beyond the point at which it remains among the most ignorant; while the improvements of manufactures and commerce have been uninterrupted within the last three centuries, and promise still greater success from the advanced state of sciences, the discoveries of the arts, and



the developement of all the productive powers of labour.

It therefore remains undisputed, that without either monopoly, privileges, or oppression, and by the mere force of things, manufactures and commerce contribute more efficaciously than agriculture to the progress of wealth, and give to manufacturing and trading nations an absolute preponderance over agricultural nations.

Adam Smith has paid a splendid homage to the principles which we have just now established. He expressly states, that “ the revenue of a trading and  
“ manufacturing country must, other things being  
“ equal, always be much greater than that of one  
“ without trade or manufactures. By means of  
“ trade and manufactures, a greater quantity of  
“ subsistence can be annually imported into a particular country than what its own lands, in the  
“ actual state of their cultivation, could afford. The  
“ inhabitants of a town, though they frequently possess  
“ no lands of their own, yet draw to themselves, by  
“ their industry, such a quantity of the rude produce  
“ of the lands of other people, as supplies them not  
“ only with the materials of their work, but with the  
“ fund of their subsistence. What a town always is  
“ with regard to the country in its neighbourhood,  
“ one independent state or country may frequently  
“ be with regard to other independent states or countries. A small quantity of manufactured produce  
“ purchases a great quantity of rude produce. A  
“ trading and manufacturing country, therefore, naturally purchases, with a small part of its manufactured produce, a great part of the rude produce of

“ other countries ; while, on the contrary, a country  
 “ without trade and manufactures is generally obliged  
 “ to purchase, at the expence of a great part of its  
 “ rude produce, a very small part of the manufac-  
 “ tured produce of other countries. The one  
 “ exports what can subsist and accommodate but a  
 “ very few, and imports the subsistence and accom-  
 “ modation of a great number. The other exports  
 “ the accommodation and subsistence of a great num-  
 “ ber, and imports that of a very few only. The  
 “ inhabitants of the one must always enjoy a much  
 “ greater quantity of subsistence than what their own  
 “ lands, in the actual state of their cultivation,  
 “ could afford. The inhabitants of the other must  
 “ always enjoy a much smaller quantity.” \*

His French translator, whom I have mentioned before, far from combating this part of his theory, has strengthened it by still more forcible and decisive considerations.

“ An industrious people,” says he, “ enjoys such a  
 “ superiority over many other nations with regard to  
 “ manufactural industry and commercial operations,  
 “ that they may draw to themselves a considerable  
 “ portion of the raw produce of other countries.—  
 “ Thus, let us suppose an article of household furni-  
 “ ture, a convenient implement, manufactured with a  
 “ material uncommonly cheap, and almost of no value,  
 “ the manufacture of which, by the help of machines  
 “ and particular methods, required only one single  
 “ day of labour, represented by eight or ten pounds

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\* *Wealth of Nations*, Edition of 1805. Vol. iii. b. iv. c. 9, p. 25.

“ of wheat ; this piece of furniture, if carried to a  
 “ country which enjoys none of the advantages of  
 “ the industrious country, will naturally be valued  
 “ by the purchasers, not according to the quantity of  
 “ labour which it may have really cost, but accord-  
 “ ing to the quantity of labour which they would be  
 “ obliged to pay for in their own country for an article  
 “ so convenient and so agreeable. They will there-  
 “ fore gladly offer in exchange for this commodity a  
 “ value representing four or five days of labour in  
 “ their own country, or a quantity of raw produce  
 “ corresponding to this value : consequently, such an  
 “ exchange will bring to the manufacturing country,  
 “ over and above the value of the provisions consumed  
 “ by the labourers who were the manufacturers and  
 “ carriers of that commodity, double the quantity of  
 “ those provisions at least, or what is the same,  
 “ double their price.” \*

After having so positively acknowledged the superiority of manufactures and trade over agriculture, how could Adam Smith and his French translator assert that agricultural labour is the most productive of labours, and contributes most efficaciously to the progress of public and private wealth ? To account for this contradiction is impossible.

The French translator of Adam Smith observes, it is true, “ that a source of wealth and power which proceeds only from a superiority of industry is, by its nature, temporary and precarious ; that it can last

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\* French translation of the Wealth of Nations, by the Senator-  
*Germain Garnier*, Paris, 1802. Vol. v. note xxix. p. 272, 273.



“ only as long as other nations remain in a state of  
“ ignorance and unskilfulness,—a state from which  
“ they will be so much the more disposed to emerge,  
“ the more they use the manufactured commodities  
“ of the industrious nations ; and that, in proportion  
“ as these other nations improve in skill, the manu-  
“ facturing country will rapidly decline, and be  
“ exposed to the most fatal extremities.”

But is this reflection as solid and well grounded as it is specious and captivating? Have manufactures and commerce only a temporary and precarious superiority over agriculture? Is the progress of knowledge, sciences, and arts, calculated not only to re-establish the equilibrium between those different labours, but even to incline the scales in favour of agriculture? This is a question of the utmost importance, which deserves to be examined with the most scrupulous attention.

An agricultural nation cannot become a trading and manufacturing one but by the slow and uncertain progress of time, by the growth of local wealth, and the improvement of knowledge, sciences, and arts, or by a concurrence of circumstances over which they have no control, and on which they cannot rely.

If they attempt to force the natural order of things, to create prodigies, and all at once to appropriate to themselves the benefits of manufactures and commerce ; they cannot accomplish this but by taking from agriculture part of the hands and capitals which caused it to flourish and prosper. Bereft of its usual means, agriculture languishes, its produce decreases, and this portion of public wealth withers and decays.

On the other hand, the unskilfulness and inexperience of new manufacturers and merchants yield for a long time none but productions inferior to those of manufacturing and trading nations, which cannot stand the competition in the general and particular market. The attempt of transforming all at once part of an agricultural nation into manufacturers and traders is therefore equally prejudicial to agriculture, manufactures, and commerce, and necessarily productive of the decay of national wealth.

Of all agricultural countries, France is the only one that attempted to raise herself all at once to the rank of manufacturing and trading countries. Colbert wrought this wonder during his memorable administration, but not without injury to agriculture. Public opinion accused him of having sacrificed agriculture to manufactures and commerce; and the incalculable advantages, which have accrued to the French from this innovation in their system of political economy, have not yet cleared that great man of this unavoidable and transitory wrong. Contemporaries rarely forgive a statesman the privations which he imposes upon them for the purpose of ameliorating their future condition; and posterity, which reaps the fruit of his skilful combinations, is frequently ungrateful to its benefactor.

The bold enterprise of Colbert, which was so successful and yet so badly rewarded, had never been attempted before, and has not been repeated since. The annals of manufactures and commerce prove, in every page, that all ancient and modern nations which have ranked among manufacturing and trading nations,

have attained this rank but slowly, gradually, and as it were imperceptibly; most of them were indebted for their success to colonization, factories, or the emigration of manufacturing and trading people.

From Egypt and Phœnicia issued the numerous colonies which carried the benefits of industry and commerce into Greece, Africa, Italy, and part of the Gauls.

When, after eight centuries of oppression, rapine, and destruction, trade and manufactures revived in some cities of Italy, whence they were diffused throughout Europe; the circumstance was owing to the numerous factories which the Italian cities established in the North of Europe, and which proved as many schools that formed the creators of the manufactures of Flanders and of the commerce of the Baltic.

In modern times, the tyranny of Philip the Second, the persecutions of the Stuarts, and the blind intolerance of Louis XIV, carried the seeds of manufactures and commerce to Holland, England, the North of Germany, and the New World.

But the progress of manufactures and commerce, from the most remote period until our own times, shews, that, in all countries and among all nations, it has always been slow, toilsome, difficult, and generally the work of ages; and that it never proved prejudicial to manufacturing and trading nations, and consequently ought to give them no uneasiness. In proportion as they are obliged to renounce certain markets, they resort to others, or open new ones among less civilized people; and until the inhabitants of the



whole world are all become agriculturists, manufacturers, and traders, (a period which is not near at hand,) manufacturing and trading nations are not likely to lose any of their advantages, and will always preserve their wealth and their power.

It might even be said, and the assertion would not appear too paradoxical, that, far from having any thing to apprehend from the progress of manufactures and commerce among agricultural nations, this progress would afford manufacturing and trading nations fresh means of prosperity and wealth. The phenomenon is easily explained.

When an agricultural country, supplied by foreign manufactures, establishes national manufactures to supply herself and to share in the benefits of the general market, she gives to her labour and capitals a direction more useful and more profitable than before, and consequently becomes richer by all the profits derived from her new manufactures and trade: but whatever may be her efforts, she cannot concentrate this new wealth in herself; it scatters itself abroad, and feeds foreign industry.

If this wealth amounts to ten millions a year, these ten millions are mostly carried to the general market to be exchanged for the productions of the industry of other nations: they cannot take any other direction, because there alone they meet with commodities that serve as equivalents. This new demand of the produce of ancient industry necessarily raises its price, increases the gains of the ancient producers, favours their manufactures and commerce, and accelerates the growth of general wealth. Among all nations without exception

the increase of national wealth occasions a larger importation of foreign productions ; and these imports are necessarily an increase of wealth to the producing nations ; these relative benefits are necessary and indispensable. It is therefore evident, that the introduction of manufactures and commerce among agricultural nations, which is to them an increase of wealth, can never be prejudicial to the wealth of manufacturing and trading nations.

A truth so important in its consequences has escaped the attention of the most esteemed writers on political economy, because they have preferred argument to observation : and their observations have been directed rather to particular than to general facts : they also have not perceived, that when wealth produced by manufactures and commerce has been introduced among recent nations, the ancient manufacturing and trading nations have by no means been impoverished. The fact is however notorious, and there is not one better ascertained in modern history.

When the cities of the North of Europe appropriated to themselves the commerce and manufactures which the Italian cities had carried thither, the latter were not injured either by the exclusion or competition, and their wealth was not impaired ; the domain of their manufactures and commerce was extended to the Baltic, Flanders, and Germany ; the number of consumers increased with the number of manufacturing and trading towns, and the more particular markets were multiplied, the more facilities had the Italian cities to vend the produce of their commerce and

manufactures, and to supply themselves with the produce of the manufactures and commerce of the North. If their trade and manufactures have decayed, their decline is to be attributed solely to the wars which swallowed their capitals, overloaded their trade with ruinous imposts, diminished their population, and plunged them into discouragement and despair.

When Holland and England enriched themselves with the spoils of Flanders, it was not by shutting their harbours to the Flemish traders, nor by becoming troublesome competitors in the general market; the ruin of this industrious people was again the work of a war of oppression, pillage, and destruction, which forced their industrious inhabitants to emigrate and to seek for an asylum in Holland, Saxony, and England.

When France, Sweden, Denmark, and Prussia, shared in the manufactures and commerce of the world, England and Holland lost nothing of their trade and manufactures; and, according to the public accounts of the imports and exports of England, it may be affirmed that its trade increased in extent, activity, and productiveness.

Finally, when the United States of North America shook off the yoke which kept them fettered to the manufactures and commerce of the mother-country; when they entered into competition with all trading nations, did the manufactures and commerce of any nation experience any restriction? None, undoubtedly; and it might, on the contrary, be affirmed, that the manufactures of all became more extensive, and more profitable than they had been before.

It therefore appears demonstrated by modern his-



tory, that the progress of manufactures and commerce among new nations, far from being prejudicial to old trading nations, turns, on the contrary, to their advantage.

Instead of bestowing upon these luminous facts the attention and importance to which they are entitled, the trade of nations with each other was regulated by the example of the individual trade of a country; and as it was found that the number of manufacturers and traders of a village, borough, or town, cannot be increased without every one of them suffering more or less from this competition, or being even ruined, it was inferred that the same fate awaits manufacturing and trading nations in proportion as their number increases in the world. But it is easy to shew, that the two cases are essentially different, or rather that there is not any similarity between them.

The industry and trade of a village, borough, or town, draw all their means of getting rich from the wealth of the place; they are kept and paid by it, and can prosper only in proportion to this wealth, and its increase, over which they have neither direct nor indirect control. Confined to such a narrow sphere, trade and industry are merely passive and destroyed by their own efforts.

But this is not the characteristic of manufactures and trade, nor their sole power; they act a more important part in the formation of wealth, and, far from being burthensome, they are its firmest support, and perhaps its true foundation. Wherever they enjoy all their elasticity, they bestow productiveness upon the existing wealth, hasten its progress, and

carry it to the highest pitch which it can attain ; they assign to labour the most beneficial direction, to capitals the best employment, and to the circulation of produce, the most rapid and most profitable activity.

When Sir Richard Arkwright invented the cotton-spinning machine, he shortened that kind of labour by two thirds, and rendered it twenty times more productive than it had been before ; he improved the manufacture of cotton so as to make it an object of luxury to the rich, and lowered its price so as to enable the less fortunate classes to wear better garments : in short, he insured to this kind of industry a superior value in exchange over the other productions of general industry ; and the result of his invention was less labour and more produce ; smaller expences and greater value. This saving in labour and expence, this increase of produce in value and quantity, is a real increase of public and private wealth, and in every respect assimilates the skilful mechanic to whom it owes its birth, to the husbandman, who, by his labour, increases agricultural produce. What is here observed concerning Sir Richard Arkwright, applies to all who have made any improvements in science, manufactures, and arts, from the invention of the plough to the spinning-machine. They all were creators of wealth in the ratio of the expence saved in the performance of labour, or of the higher value given to its productions.

Commerce is exactly on a par with manufactures, and contributes in the same manner to the growth of wealth : by commerce, however, we must not, as the French economists and many writers on political eco-

nomy have done, understand the simple conveyance of the produce of agriculture and manufactures from the spot where it is produced to the place where it is consumed ; but such commerce as creates and multiplies productions by conferring upon them a value which else they would not possess.

Merchants, by following navigators on all coasts, and travellers in all climates, to open commercial communications with their inhabitants, by bringing to market the produce of unknown countries, or of savage and barbarous nations, and, in exchange for this produce, which is of no value to those distant nations, giving them other useful and agreeable productions, are actually creators of both this new produce and the equivalents which serve to pay for it, and augment public and private wealth by the whole value of this produce and its equivalents.

There is, therefore, a kind of industry which is not paid for by local wealth ; which draws its wages from the wealth which it creates, and which of course can never obstruct any kind of manufactures and trade ; which can neither be impoverished by, nor impoverish any ; all may prosper by each other's side, lend each other a mutual support, and be so much more beneficial to general wealth as they are more numerous. Wrong notions have been entertained respecting commerce and manufactures, when it has been supposed that they are destroyed in proportion as they make any progress among different nations, and that manufacturing and trading nations have every thing to apprehend from the rapidity of such progress. The advantages of manufactures and



commerce are not precarious and transitory; they are permanent, unlimited, and indefinite, and can never be wrested from manufacturing and trading nations by the competition of agricultural nations.

But it is particularly with regard to political power and independence that the superiority of the mercantile, over the agricultural system, becomes manifest.

In the mercantile system, the manufacturing and trading classes are able to spare, for the service of the country, a great number of young men, without any prejudice to general labour. The diminution of hands is repaired by more exertion, more assiduity, and a better employment of time on the part of the other labourers. And, should the produce be diminished, its value is increased by its scarcity, the national income always remains the same, and consequently is always adequate to the wants of the individuals who devote themselves to the service of the state; and what is most extraordinary, commerce and manufactures extend to the whole world the burthen of warfare which may press upon manufacturing and trading nations.

Finally, if the interest of manufacturing and trading nations requires them to carry their means of attack and defence to a great distance, they find in their foreign and commercial relations, in the circulation of their produce on all points of the globe, and in their credit, facilities, and resources, from which agricultural nations are debarred. \*

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\* “ The bounds of all the European kingdoms are, at present, (1752), nearly the same they were two hundred years ago : but

Manufactures and commerce afford in every respect means of wealth, power, and grandeur, which are not found in agriculture; and Adam Smith was equally right when he asserted, 1. That it is to the labours of industry that we are indebted for that general opulence which in a well-governed community extends to the lowest classes of the people; and, 2. That the improvements of commerce and manufactures have begun in places, which enjoyed the rare advantage of carrying their produce to the market of the whole world.

Why has this precious and apparently involuntary avowal, drawn from his candour, not been developed in his excellent work? Why, after having acknowledged that the agricultural system cannot alone form a great nation, has not Adam Smith examined whether the case was the same with the mercantile system? And, though the latter has so many advantages over the former in his reasonings, why do his conclusions give the preference to the agricultural, over the mercantile system?

Shall I be allowed to declare the reason? Strong understandings are rarely fond of innovating: the authority of times that are past, often stops them on the road to new truths: they are afraid of going astray, even when they pursue the direction of the light which they themselves profusely scattered

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“ what a difference is there in the power and grandeur of those  
“ kingdoms? Which can be ascribed to nothing but the increase  
“ of art and industry.” *Hume's Essays*. Edinb. 1804. vol. i.  
part 2, of Refinement in the Arts, page 290.

abroad. When Adam Smith wrote his immortal work, the agricultural system was predominant in the most recent publications, and the mercantile system preponderated in public opinion and in the cabinets of princes. To choose between the two doctrines, or to introduce a new one, would not perhaps have been an easy task, and would not have insured the success of his work. The state of the science in his time rendered doubts allowable; and it is but justice to acknowledge, that if he declared for the agricultural system, he neglected none of the considerations which could recommend the mercantile system and cause it to triumph, as it were, over his own decision. He overturned with one hand the altar which he had raised with the other, and contented himself with refuting errors fatal to the science without daring to proclaim truths which would have insured its progress and its success. To leave the question undecided between the agricultural and mercantile system, would have been neglecting his own lessons; it would have been stopping short of the point to which he has carried the science, it would have been relinquishing the course which he himself has traced to wealth.

Let us therefore conclude, that if labour has the greatest share in the formation and progress of wealth, this productiveness is not the exclusive lot of any particular labour, but is common to labour in general, and eminently connected with manufactures and commerce.

How beautiful is this concurrence of all labours to produce wealth without any other pre-eminence or



distinction, than that which is obtained by the exchange of their productions! How encouraging to the labouring classes, incentive to nations, favourable to civilization, and honourable to humanity! In this system, all follow their individual inclinations, develope and improve their faculties, encourage each other by a noble emulation, are every moment reminded of their need of each other, connected by habit and mutual interest, and bound by the ties of the great family of the human race which the formation of separate nations had broken. Scattered all over the globe, men are no longer strangers to each other, they labour one for the other, and correspond together, although separated by deep seas, severe climates, inaccessible mountains, and inhospitable deserts. Thanks to the genius of commerce and the inexhaustible resources of industry, perils are braved, difficulties vanquished, obstacles overcome, and the produce of general labour circulated all over the world\*.

Can this generous and liberal system be compared with that which acknowledges no wealth but what proceeds from agriculture, allows the latter a superiority over all other labours, pays them with its produce, and impoverishes them all to grow rich by their misery? The parallel is repugnant to every prin-

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\* “ Tutte le invenzione le piu ben meritè del genere humano, e che hanno sviluppato l'ingegno e la facolta dell' animo nostro, sono quelle che accostano l'uomo a l'uomo e facilitano la comunicazione delle idee, dei bisogni, dei sentimenti, e riducono il genere umano a massa.” *Dell' Econ. Polit. del Conde Veri*, § 2.

ciple by which the nature and effects of labour in general are regulated; and it would be improper to dwell any longer upon it.

The nature and effects of labour in general being fixed and known, let us see which means the different systems recommend to increase its force, develop its faculties, and extend its power, and what obstacles oppose its progress, paralyse its efforts, and impede its success.

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#### CHAP. IV.

*Of the Causes which invigorate Labour, improve its Powers, and ameliorate its Produce.*

ADAM Smith, who first assigned to labour such important functions, demonstrated its powerful influence upon wealth, and rendered it so interesting in economical respects, is also the first who bestowed particular attention upon the causes which invigorate labour, improve its faculties, and augment and ameliorate its produce. He ascribes all its improvements to the division of its parts, or the confiding to several hands the different branches of the same labour, which gives each labourer more dexterity, avoids the loss of time occasioned by the change of labour, and is conducive to the invention of machines which shorten and facilitate labour, and enable one individual to perform the labour of many.

This fruitful principle, on which Adam Smith reared his system of political economy, to which he

bent his theory, and which exercises a sort of domination over the science, had hitherto been considered as one of the facts which have most accelerated the progress of political economy and most contributed to the celebrity of its author.

But this title to glory has not been respected by the Earl of Lauderdale; and it is, no doubt, interesting to behold the efforts of the Noble Author to overturn the main pillar of political economy.

Lord Lauderdale begins by observing, “ that the  
“ idea of the effects of the division of labour is not  
“ new; that the dexterity which man acquires in  
“ performing labour, by confining himself to one particular branch, has been dwelt upon from the times  
“ of Xenophon to the present day; and that, on this  
“ principle, professions in ancient times had been  
“ made hereditary; as was the case in Egypt, in some  
“ parts of India, and in Peru.”

To this rather critical than instructive observation, the noble Earl adds, that “ the great number of distinct operations that contribute towards the formation of some of the most trifling manufactures, such as the trade of pin-making, is not derived from any degree of habitual dexterity, or from the saving of time, as results of the division of labour; but from the circumstance of supplanting and performing labour by capital. Without the machinery, which the faculty that man possesses of supplanting labour by capital introduces, no great progress could have been made in the rapidity with which pins are formed; and one man, with the use of this machinery, though he goes through and per-



“ forms all the operations himself, must, obviously,  
“ manufacture more pins in an hour, than would be  
“ formed in a month, even in a year, by any number  
“ of men amongst whom the labour could be divided,  
“ if unaided by the circumstance of part of their  
“ labour being supplanted and performed by capital.  
“ —The progress made of late years in Scotland, in  
“ the art of distilling spirits, affords a strong illustra-  
“ tion and example of the vast resources of human  
“ ingenuity in abridging labour by mechanical con-  
“ trivances.”

“ In the year 1785, a proposal was made to col-  
“ lect the duty on the manufacture of spirits in  
“ Scotland by way of licence, to be paid annually for  
“ every still, according to its size, at a fixed rate per  
“ gallon, in lieu of all other duties.”

“ The London distillers, men the most experienced  
“ in their profession, who agreed to the rate of the  
“ licence on the gallon, supposed to be equivalent to  
“ the former duties, declared themselves, from expe-  
“ rience, satisfied, that the time of working stills with  
“ benefit was limited to an extent perfectly well  
“ known; and that whoever exceeded these limits  
“ would infallibly lose upon his materials and the  
“ quality of the goods what he gained in point of  
“ time; and in conformity to their opinion, the duty  
“ was in the year 1786 settled, upon the supposition  
“ that stills could be discharged about seven times in  
“ a week.”

“ Two years after this, in a memorial presented to  
“ the Lords Commissioners of the Treasury, the same  
“ men alleged, that the Scotch distillers had, by the

“ ingenuity of their contrivances, found means to  
“ discharge their stills upwards of forty times a  
“ week ; and we since know, from a report made to  
“ the Lords Commissioners of the Treasury, in the  
“ year 1799, that a forty-three-gallon still was  
“ brought to such a degree of perfection, as to be  
“ discharged at the rate of once in two minutes and  
“ three quarters ; which is almost twenty-two times  
“ in an hour. It appears also from this report, that  
“ the operation of distillation was capable of being  
“ performed in a still shorter time, and that the  
“ quality of the spirit was no wise injured by the  
“ rapidity of the operation.”

From this fact Lord Lauderdale concludes, that it is to the introduction of some sort of machinery, to the effect of the application of chemistry to manufactures, and to the increase or command of capital enabling the manufacturers to reduce the price of manufactured commodities, that we are indebted for the wealth and comforts generally enjoyed by civilized society.

“ In the annals,” adds the noble author, “ of the  
“ transactions and negociations that have taken place  
“ between different nations on the subject of commercial arrangements, the danger of admitting a  
“ country to a commercial competition, because the  
“ division of labour was there carried farther than in  
“ any other, is a thing unheard of ; whilst the constant and uniform ground of objection, urged by  
“ men whose prejudices led them to think that commerce may be conducted in a manner injurious to  
“ a nation, is the superiority that the one country has

“ over the other, derived from dexterity in sup-  
“ planting and performing labour by capital.”

“ Adam Smith has vainly laboured to impress the  
“ belief that the introduction of machinery is origi-  
“ nally owing to the division of labour, of which it  
“ is considered as a mere consequence.”

“ But, in truth, the history of man shews us,  
“ that the simplest and most efficacious machines  
“ for supplanting labour—(instruments with which  
“ habit has so familiarized us, that we hardly dig-  
“ nify them with the name of machinery)—are  
“ introduced, at an early period of society, when  
“ the division of labour is comparatively unpractised  
“ and unknown, for the purpose of supplanting the  
“ personal labour of man in the conduct of agricul-  
“ tural industry;—an art which, through its pre-  
“ eminence in the production of wealth, is acknow-  
“ ledged (even by those who wish to establish that  
“ the division of labour is the great source of the  
“ increased opulence of mankind), is in no period of  
“ society distinguished by reaping benefit from the  
“ division of labour.”

“ The eagerness and anxiety of the author of the  
“ *Wealth of Nations* to enforce his favourite opinion,  
“ has made him assert, that a great part of the  
“ machines employed in those manufactures in  
“ which labour is most subdivided, were originally  
“ the inventions of common workmen, who, being  
“ each of them employed in some very simple ope-  
“ ration, naturally turned their thoughts towards  
“ finding out easier and readier methods of per-  
“ forming it.



“ The inaccuracy of the fact cannot escape any  
“ one conversant with the history of machinery.—  
“ It is certain, on the contrary, that it is to the  
“ characteristic faculty which man possesses, from  
“ the earliest period of his existence, of applying  
“ mechanical principles to the construction of tools  
“ and machines, calculated to perform and supplant  
“ labour, and to his powers of using capital for the  
“ same purpose, in all his commercial relations, as  
“ well as in every transaction which requires the  
“ exertion of labour, that he owes the ease and won-  
“ derful rapidity with which labour is executed ; and  
“ consequently, that extended opulence which ex-  
“ pands itself throughout civilized society.”\*

I thought it my duty not to omit any of the numerous considerations which Lord Lauderdale has supposed calculated to discredit the division of labour, that main pillar of the doctrine of Adam Smith ; because it is of essential importance not to leave any doubts on this part of the science, and because it is equally dangerous to abandon oneself to a blind credulity, or to shut one's eyes to certain and positive truths.

I shall not examine whether the effects of the division of labour were known to the nations of antiquity, whether they occasioned the distinction of certain people into casts, whether the invention of machinery has been antecedent to the division of labour, and

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\* An Inquiry into the Nature and Origin of Public Wealth : by the *Earl of Lauderdale*. Edinb. 1804. chap. 5, pages 286, 296, 297, 300, 301, 302.

whether the instruments of agriculture deserve the honour of being ranked among the machines which shorten and facilitate labour. All these inquiries are more curious than useful, of little interest to political economy, and can neither directly nor indirectly contribute to its progress.

The question, whether machinery is more conducive than the division of labour to develop the energies of the labourer, improve his faculties, increase his produce, and ameliorate its quality, appears at first sight of higher importance: but a little attention soon shews this view of the matter to be erroneous and delusive.

The division of labour imparts to the labourer, not only greater facility, dexterity, and intelligence, to perform the labour he has undertaken; but, what is far more important, it distributes every part of the labour in the manner best calculated to hasten and improve its performance: so that if it even were true that the labourer, as agent of the labour, receives greater assistance from machinery than from the division of labour, we should yet be obliged to admit that, with regard to labour in general, the distribution of the different parts of labour renders services superior to those of machinery. The division of labour appears in every respect entitled to be compared with the direction of labour. It is true, that each labourer performs more labour than the undertaker; nevertheless, the latter contributes more to its performance than each of the individual labourers. Machines are but more diligent, more active, and less expensive labourers; the division of labour is the undertaker

that directs them, regulates their movements, and guides them to their end by the straightest line. The division of labour relates to labour in general; it prepares the links of that immense chain which connects individuals with individuals, families with families, nations with nations, and converts the whole world into a single workshop, a general manufactory. To confine the effects of divided labour to that portion of labour which it performs beyond what undivided labour would have performed, is to be ignorant of its nature, advantages, and benefits.

It must, however, be admitted, that the effects of the division of labour, the advantages of which are universally acknowledged with regard to manufactures and commerce, are not so certain with regard to agriculture. The point is not yet decided, whether the division of agricultural labour is more profitable than its concentration; or, in other words, whether small or large farms are more advantageous to public wealth. Both opinions have numerous and illustrious defenders.

“ There is no maxim of political economy more true,” says Dr. Price, “ than this: the division of property increases population; the concentration of property reduces the small farmers to the condition of common day-labourers, and forces them to purchase in the market the corn they want for their subsistence. This manner of existence is more painful, the children become more burthensome, marriages less frequent, and population declines.

“ When lands were divided among a greater number of owners, day-labour was dearer than at present (1772), when it is not four or five times dearer



“ than in 1514, and when food, with regard to bread,  
 “ is seven times, and, with regard to meat, fifteen  
 “ times dearer.

“ Whence it follows, that ever since the introduc-  
 “ tion of large farms, the maintenance of the hus-  
 “ bandman is dearer, and his wages less ; which cir-  
 “ cumstance has, of course, diminished that impor-  
 “ tant class of the people,\*”

Mr. Arthur Young, who has combated the opinion of Dr. Price, observes, that “ it is not the number of  
 “ people, but their wealth, which constitutes their  
 “ power ; and that population ought to be subordi-  
 “ nate to agriculture, so that the abundance of pro-  
 “ duce should constantly precede the increase of  
 “ population.” Whence he infers, that “ large farms,  
 “ being more advantageous than small ones, ought to  
 “ contribute more than small ones to the increase of  
 “ population.”†

To hesitate between these two opinions, appears impossible, if, as they certainly do, large farms‡

\* *Dr. Richard Price's Observations on Reversionary Payments ; 1773.*

† *Arthur Young's Political Arithmetic.*

‡ A nation whose territory comprises thirty millions of acres of land proper for agriculture, with large, middling, and small farms, would give the following results :

Upon the plan of small farms, one million of farms, of thirty acres each, would require two millions of regular husbandmen and three millions of horses.

On the plan of middling farms, that country would have five hundred forty-five thousand farms of fifty-five acres each, one

yield a larger quantity of produce than small ones, or, what is the same, if they yield an equal produce at less expence. Should this saving of costs even be obtained at the expence of the husbandmen, and diminish their number, population would not be a sufferer, and wealth would be a considerable gainer. The husbandmen who are become useless to agriculture, still find the same subsistence in its produce: but being obliged to reproduce, at least, its equivalent by other labours, general wealth is increased by the total sum of this equivalent. There remains, therefore, no doubt that, with regard to population and wealth, the division of labour applied to agriculture, or the system of small farms, is as hurtful as it is beneficial in its application to manufactures and commerce.

But what is the actual utility of machines, which has been so much extolléd by the Earl of Lauderdale? If it have zealous advocates, it has also numerous opponents; and the controversy which it has occasioned,

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million six hundred thirty-five regular husbandmen, and two millions seven hundred twenty-five thousand horses.

On the plan of large farms, that country would have three hundred forty-one thousand farms of eighty-eight acres each, one million three hundred sixty-four thousand regular husbandmen, and two millions forty-six thousand horses.

And, as the produce consumed by a horse may be reckoned equal in value to that consumed by a labourer for his food, the nation may be considered as having, in the system of small farms, five millions of regular husbandmen; in the system of farms of the middle size, four millions three hundred and sixty thousand; and in the system of large farms, three millions four hundred and ten thousand. *Discours Fondamental sur la Population; par Herrenschand.*

offers a problem which it is important and useful to examine with attention.

“ Machines to shorten labour,” says Montesquieu, “ are not always useful. If a piece of workmanship be at a low price, which price suits alike the purchaser and the labourer who performed the work, machines that should simplify its manufacture, that is to say, that should diminish the number of labourers, would be prejudicial; and were not water-mills established every where, I should not think them as useful as they are supposed to be; because they have set a great number of hands at rest, deprived many people of the use of the waters, and diminished the productiveness of many lands.\*”

This opinion has been refuted in several equally convincing and triumphant ways.

We ought first to distinguish between machines that perform labours beyond the strength of man, which of course do not deprive him of any labour, and those that perform labours which man is capable of performing.

With regard to the former, it has justly been observed, that they are but profitable, and never can be prejudicial, since they afford productions which exceed the strength and dexterity of man, and would not exist without their aid.

With regard to those machines which barely supplant the labour of man, it has also been very justly remarked, that they are not prejudicial to nations whose prosperity is upon the increase, because they

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\* Montesquieu, *Esprit des Loix*, book xxiii, chap. 15.



only supply the want of hands; but nations whose wealth is stationary or retrograding, as they have a sufficient or too great a number of hands, have no occasion for this latter kind of machines. \*

This restriction to the utility of machines does not appear to rest on any solid foundation; it even excites surprise when we come to consider, that all authors agree that machines cost less and produce more than man; which circumstance of course affords a larger quantity of disposable produce. This increase of productions, which has not and cannot find any consumers but in the labourers whom the machines have thrown out of employ, nor any equivalent but in the produce of their new occupation, can neither lessen their wages nor reduce their number. A larger produce must not only maintain the same population and the same labour, but also increase both.

It is true, that if machines, and large farms, which may be assimilated to machines, were suddenly introduced, and both at once in the same country, they would occasion a supplanting of labour which might be extremely prejudicial to the labouring classes. But such innovations are introduced slowly and partially. The husbandman, left unemployed by large farms, is employed in other occupations by the landowner, whose net produce is increased; and the labourer, who through the erection of machines is deprived of his usual employment, likewise obtains his wages from new manufacturers, the establishment of which

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\* *Discours Fondamental sur la Population; par Herrens-  
chwand.*

every where follows the increase of productions and general wealth. Thus the husbandman and the labourer are ultimately no sufferers by the introduction of machines, whatever may be the state of the country, whether her prosperity be progressive, stationary, or retrograding.

Nay, more, if any thing were capable of arresting the decline of a country, and restoring her to prosperity, the use of machines and the introduction of large farms would accomplish this object in the most efficacious and infallible way.

Why is the prosperity of a country stationary or retrograding? Because her consumption is equal or superior to the produce of her labour. Machines and large farms, which would augment the produce of her labour and diminish its cost, might therefore re-establish the equilibrium, occasion a surplus of produce above consumption, and rapidly restore her former prosperity.

In short, wherever an increase of produce is obtained at a smaller expence, there is an increase of wealth; and an increase of wealth is always followed by an increase of population. This maxim appears absolute in political economy, if there be any absolute principle possible in that science.

It has however been asserted, that wealth acquired by industry may be useless to the increase of the industrious population, and even augment to their prejudice the agricultural population, by which they are supplied with the raw produce of agriculture.

“ When a country, which from the narrowness of  
“ her territory is obliged to economize the hands she

“ employs,” says the French translator of Adam Smith’s work, “ has turned her efforts to the means  
“ which render labour more productive, and has so  
“ far succeeded that one day’s labour proves the equi-  
“ valent of two or three days of another labour, this  
“ is accomplished merely by exchanging a manufac-  
“ tured against a raw produce ; and as the latter can  
“ be increased only with the aid of a numerous popu-  
“ lation, this exchange ultimately tends to multiply  
“ men and food among those nations that give their  
“ raw produce in exchange for manufactured produc-  
“ tions, and must have a totally opposite effect in the  
“ manufacturing country which simply aims at ob-  
“ taining the largest possible quantity of raw produce  
“ with the smallest possible number of hands.”\*

This reasoning appears to rest upon a manifest fallacy, the fatal consequences of which it is important to prevent, and against which it is proper to guard nations that might be tempted to suppose that agriculture is able to enrich them at the expence of manufacturing nations.

An agricultural country increases her raw produce only as far as trading countries insure its sale. The increase of the wealth and population of agricultural nations depends therefore on the industry and population of the manufacturing ones. But in what proportions does the increase of wealth and population take place in both countries ? There is no doubt

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\* *Recherches sur la Nature et les Causes de la Richesse des Nations* ; par Adam Smith. Traduction nouvelle par Germain Garnier. Paris, 1802. Vol. i. Preface, pages 77, 78.



remaining in this respect ; and the translator of Adam Smith, whose opinion I am investigating, has himself fixed the proportions, when he said, that one day's labour in the manufacturing country is equivalent to two or three days' labour in the agricultural country. If, in the exchange of the produce of their mutual labour, the productions of the agricultural country are to those of the manufacturing country as one to three ; it is obvious that, while the wealth and population of the agricultural country are increased in the proportion of one to three, the wealth and population of the manufacturing country augment in the proportion of three to one.

But might it not be said at least, that the raw produce of the agricultural country is better calculated to increase population, than a manufactured produce ? By no means : for the raw produce does not remain with agricultural nations, but passes over to the manufacturing nations. This raw produce is food for the population ; whilst the manufactured produce serves at the utmost as raiment and household furniture to the agricultural nations. In this exchange of food and garments, the population which gets food in a proportion triple of that which gets clothing, must necessarily increase in a triple proportion, because it is food and not clothing which augments population.

This result ought to teach agricultural nations the necessity of turning their attention to manufactures and commerce, if they do not wish their labours to augment the wealth and power of manufacturing and trading nations ; it ought to convince them of the superiority of commerce and manufactures over agriculture.

The means of increasing the power of labour, of improving its faculties, augmenting its produce, and ameliorating its quality, consists, therefore, with regard to agriculture, in large farms, and with regard to manufactures and commerce, in the division of labour and the use of machinery. These means, single or combined, must give to labour the highest degree of utility which it is capable of attaining, particularly if their effect be not impeded or destroyed by various obstacles, so much the more fatal, as opinions are yet divided concerning their influence.

These obstacles, pointed out by some as prejudicial to the progress of labour, and considered by others as beneficial, are, the slavery of the labourer, apprenticeships, corporations, and low wages.

Let us inquire into this part of the science to obtain correct notions on these subjects.

## CHAP. V.

*Of the Obstacles which impede the progress of Labour.*

## OF SLAVERY.

THE advantages of liberty over slavery with regard to labour are no longer a problem in political economy. They have been demonstrated in the most convincing and satisfactory manner by the most esteemed writers. And could they do otherwise than promulgate an opinion so honourable, so consoling to humanity, and so fully established by the political and economical history of modern times? The liberation of the people of Europe from slavery has been followed by the clearing and cultivating of lands, by the transformation of huts into cottages, of hamlets into villages, of boroughs into towns, and of towns into cities; by the establishment of manufactures and commerce, by public order and national power. The nations which first made a brilliant figure on the political stage, are precisely those that first substituted the labour of the free man for the labour of the slave; and it is only by following their example that others have been enabled to rise to the same prosperity: in short, the æra of the political and economical regeneration of modern Europe is the æra of the abolition of real and personal slavery.

How could these striking facts escape the attention of a modern writer, who, in his *Treatise of Political Economy*, has professed liberal and philosophical



sentiments, and has shewn himself on a level with the knowledge of an enlightened age?

How, after having asked, "what is the effect of slavery upon production?" has he not been afraid of making this declaration: "I have no doubts that the labour of the slave yields a greater surplus of production over consumption than the labour of the free man?"

On what does he rest a doctrine combated by the experience of three centuries and the constantly increasing prosperity of Europe?

"The labour of a slave," says he, "has no limits but the power of his faculties. His master, or his overseer, takes care that he performs as much work as he is able without declining sensibly. The labour of a free man is likewise limited by his faculties, but also by his will. In vain it is urged, that his will is always to work as much as possible in order to gain as much as possible. It is too well known that this is not the case, and that the love of gain is frequently inferior to that of idleness and dissipation. The free man has in general but few wants for the moment, and little foresight respecting futurity; he does not think it necessary to labour beyond what this foresight and these wants require. The slave works to gratify the avarice of his master, which is unbounded; and the indolence and love of pleasure of the master do but aggravate the toils of the slave." \*

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\* *Traité d' Economie Politique, par Jean Baptiste de Say.* Paris, 1803. Vol. i. p. 216.

This theory appears far from being proved to demonstration. Whatever influence may be attributed to the whip of the taskmaster upon the determinations of the slave, it cannot be superior to the impulse which the attractions of pleasure, vanity and ambition give to the free labourer. Fear prevents the slave from acting and doing such things as he is forbidden to do; but nature has implanted in the heart of man other motives to impel him to action and keep him in constant activity. The strength of the labourer, far from being increased, is diminished by fear; his energy is impaired, his activity paralysed: fear is rather the parent of idleness, negligence, and stupidity, than of application, exertion, and intelligence. It is therefore as serious a mistake in political economy to prefer the labour of the slave to that of the free man, as it is a fundamental error in morals to suppose that man is more readily determined by fear than by interest, and that the anxiety to avoid pain is more powerful than the attraction of pleasure. Man exists and preserves himself merely by braving the pain with which nature has environed pleasure. Civil associations are formed and maintained, because the sacrifices which they command are advantageous when compared to the benefits which they hold out. Pain every where precedes pleasure; and every where man braves pain, to arrive at pleasure.

The same French author observes, that “ while  
“ the labour of the slave is more productive than that  
“ of the free labourer, his expences are less. The  
“ maintenance of a slave is as cheap as his toils are

“ excessive. His master little cares whether he enjoys  
“ life, provided he barely keeps alive.”\*

I shall not start any doubts against this observation : perhaps it is, unfortunately, too true. But how did it escape the author, that this very observation destroys the doctrine which he is endeavouring to establish ?

It is impossible that the free labourer should expend more and produce less than the slave. Greater expences suppose a larger produce ; for at no time, and in no country, can any thing be obtained for nothing. Every expence supposes an equivalent produced to meet that expence. If the free labourer expends more than the slave, the produce of his labour must be more considerable than that of the labour of the slave.

I know it may be objected, with some truth, that the savings of the master in the expences of his slaves serve to enlarge his personal expences, and to procure him greater enjoyments.

But it is more conducive to general wealth, that all orders of the community be in easy circumstances, than that a few individuals should enjoy excessive affluence. The diffusion of wealth favours consumption, accelerates the circulation of productions, and causes all kinds of manufactures and trade to prosper. The concentration of wealth maintains but few kinds of industry and trades, and plunges the remainder of

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\* *Economie Politique*, par *J. B. de Say*. Vol. i. p. 216,



the people into indigence and despair \*. The smallness of the expences of a slave, which serves only to increase the expences of his master, can no more be considered as advantageous to the progress of public and private wealth, than it can be supposed that the slave labours more than the free labourer. The sensation of fear cannot rise superior to the feeling of comfort and well being, and the yoke imposed by constraint cannot be lighter than that of personal interest.

Let us however beware of inferring from these general principles, that at all times, in all places, and under all circumstances, the labour of the free man ought to be substituted for that of the slave, and that these principles are equally proper and applicable to the colonial system.

Although the nature of man, whether black, copper-coloured, or white, be every where the same; although passions have the same sway over men of all colours; although all obey alike the influence of moral and physical causes; it yet cannot be denied, that the habit of slavery or liberty must necessarily modify them in such a manner, that the free man and the slave must seem to have nothing in common but the outward forms of humanity. Fear may possibly

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\* “ Quanto piu denaro è sparso generalmente per le mani del  
 “ popolo, tanto piu crescono le voglie e i bisogni del popolo, per-  
 “ chè si desidera il comodo a misura che v'è probabilita di pro-  
 “ curer selo; quanto piu crescono i bisogni nel popolo, tanto  
 “ piu comprese consumazioni egli fa.”—Econ. Polit. del Conde  
 Verri, § 17.

operate more forcibly on the slave, than either private interest or the love of pleasure on the free man; servitude may more powerfully oppose the impulse of the original and natural faculties of man, than liberty contributes to their improvement. The influence of education is such, that it may impair the elasticity of the spring of human actions and bend it contrary to its original destination; it may even pervert the ideas, inclinations, and dispositions of man to such a degree, that it may cause the slave to love what the free man detests, or the free man to hate what the slave adores. Both ancient and modern history afford many instances of this perversion. Where is the modern people that would not look upon the life of the Spartans as the last degree of human wretchedness? And what Arab, accustomed to the wandering and roaming life of his cattle, would not fancy himself condemned to the most excruciating pains, if he were obliged to submit to the laborious and sedentary life of our industrious artisans?

Whenever, therefore, education has moulded man to a certain mode of existence, it is the height of imprudence suddenly to impose upon the free man the ideas, sentiments, and inclinations of the slave, and upon the slave the notions, feelings, and propensities of the free man. Cast the free man into slavery, and, to stimulate him to labour, threaten him with the whip, or hold out the allurements of his private interest, and you will see which of the two means will have most power over him. But set the slave free, and it is more than probable that when he is no longer impelled by fear, he will be little excited to

labour by the sentiment of his private interest ; the repose which he wished for, will be to him the supreme good, and the need of labouring for his subsistence will perhaps not easily interrupt the enjoyment of this repose. It is therefore impossible to apply to one the maxims and principles which suit the other, or to derive from two particular instances a general rule applicable to all cases.

Enlightened governors, who know and respect the original views of nature in the formation of man, who know to what degree they have been altered or modified by education, and wish to insure to him the enjoyment of the goods of which he is deprived, ought to regard less what man was according to the intentions of nature, than what he is in the condition in which he has been placed by education ; they ought to proportion the happiness designed for him to his actual faculties, and undo by degrees what had been effected gradually by education.

In this respect it is evident, that the question of the influence of liberty or slavery on labour, which in the system of modern Europe offers no difficulty, may be attended with very great difficulties in the colonial system ; and although it appears demonstrated, that the labour of the free man is more advantageous than that of the slave, it is perhaps equally true, that, in the present colonial system, the labour of the slave is more advantageous than that of the free man.

The most general rule in political economy is never absolute, nor constantly good at all times, in all places, and under all circumstances ; both its truth and its utility depend on the knowledge and pru-



dence of the governors by whom it is applied ; and they are so much the more entitled to praise and gratitude, as they come nearer truth without doing too great a violence to the opinions, propensities, and habits of the people over whom they rule.

But the philosophical inquirer, who seeks in the natural relations of men and things for the laws which they are to obey, pays no regard either to the modifications which they have undergone, to the circumstances by which these modifications have been commanded, or to the considerations which recommend their temporary retention ; he looks to nothing but the object and intention of nature. His task is to indicate this object, and extends no further ; and the service which he renders to mankind is merely to prevent their losing their way on the dark road of their private interests, and to keep them as close as possible to the tract of reason and justice.

## CHAP. VI.

*Of Apprenticeships and Corporations.*

THE question of the liberty of labour naturally presents itself next to the question of the liberty of the labourer; a question which has been uniformly resolved by all writers, and differently treated by most governments. What are we to think of this clashing of opinions and practice? On which side is reason, and truth?

Were I to collect the arguments brought forward by the writers of all sects and countries against the injury done to the liberty of labour by apprenticeships and corporations, I should compose a huge volume which no doubt would not carry more conviction with it than the numerous chapters of the different works which I should have perused to compile it: but the triumph of the science is not so much my object, as the wish to fix its doctrine; my purpose will be accomplished by a rapid sketch of the inconveniencies and advantages attendant on those institutions, and by leaving to time the care of causing either the theory of speculative men or the practice of governments to prevail.

Apprenticeships and corporations are considered by all English, French, and Italian writers, as an infraction of the natural right of man to make use of his powers and dexterity for the purpose of providing for his sub-

sistence, (a right of which civil society neither can nor ought to deprive him,) and as an obstacle to the development of his individual faculties, to the progress of labour, and to the improvement of industry.

They are of opinion, that the greater the liberty of labour, the greater the facility of every labourer to chuse the labour for which he thinks himself fit, the stronger is his disposition to work, and the greater the perfection he gives to the produce of his labour. When, on the contrary, every labourer is restrained in the choice of his labour by the laws of apprenticeships and corporations, the country, instead of good labourers, has but indifferent or bad ones; and instead of an active and improved industry, but few and coarse productions, of little benefit to the labourer and to the state; manufactures, arts, and commerce, centre in a small number of privileged beings; emulation vanishes, competition ceases, talent is degraded, and mediocrity reigns triumphant.

Finally, the incorporation of labourers gives them a monopoly of their work, raises its price, diminishes its home and foreign consumption, impedes reproduction, and paralyses the progress of general wealth.

And what is a counterpoise to so many disastrous inconveniencies?

These institutions are supposed to favour the levy of the contributions assessed upon industry, to insure the perfection of its produce, to warrant to the foreign consumer the goodness of the national manufactures, to facilitate the superintendence of the police over this numerous portion of the people, whose tran-



quillity is of the most material importance to public safety.

These advantages must have appeared extremely valuable at a time when industry had made but little progress, when civilization was not much advanced, and public wealth inconsiderable.

But at present these considerations have lost all their force, and if they still deceive sound understandings, it is less by their effective importance than by the irresistible power of habit.

At a time when sovereigns could not easily obtain from their subjects the contributions which the public wants required, and when credit could not supply the insufficiency of general contributions, corporations may have afforded safe and easy means to borrow and to draw indirect supplies from the people: but at present, these resources are so feeble, so disproportioned to the public wants, and yet so expensive, that the most limited and least enlightened monarch would debase his authority and his dignity, discredit his government, and enervate his power, if he allowed himself to resort to such pitiful measures.

On the other hand, if in the infancy of industry and arts it might have suited a manufacturing town, or even a manufacturing country, to keep their methods secret in order to retain the exclusive enjoyment of their advantages, and to insure to their produce a permanent superiority; this has long since ceased to be of any avail. Drawing has made such extensive progress, its practice is so general, that it is no longer possible to keep the most complicated methods secret;

industry is no longer a mystery or craft for any one ; the cleverest manufacturer could not deceive the least informed merchant, or the least experienced broker.

Lastly, if it be true that, in some respects, corporations are useful means of police and superintendence over the numerous labouring classes, there are few governments which, since the institution of standing armies, are not above such assistance.

And, besides, is it not obvious that if the masters, in obedience to the police, are able to restrain their labourers within their duty, they may also excite them to insurrection and sedition, when it suits their interest or coincides with their opinions ? Masters have frequently opposed an efficacious resistance to the views of the best intentioned and most enlightened governments. . How many seditions have owed their origin to the seduction and corruption of the masters ! Governments acquainted with their own strength and power, ought no longer to depend on the various and fluctuating interests of the labouring classes ; the general interest of the nation, which is constant and immutable, affords them a more solid and efficient support.

Thus political reasons and the interest of wealth justify alike the doctrine of speculative men upon apprenticeships and corporations, and ought to make it triumph over antiquated usages and old habits.

## CHAP. VII.

*Of the Wages of Labour.*

PRIOR to the days of Adam Smith, our notions on the subject of wages of labour were vague, confused, and incapable of leading to a reasonable and decided opinion.

The maxim of the French economists was, that the wages of labour are proportioned to the price of provisions, and that the cheapness of provisions is not favourable to the labouring class, because it lowers their wages, diminishes their comforts, and reduces the mass of labour.\*

*David Hume* maintained that, men being particularly prone to indolence and repose, necessity alone can induce them to labour; that they cease to labour, whenever the gain of a few days enables them to supply themselves with necessaries, and only resume their labour after they have dissipated what they had amassed.

From this observation, which is confirmed by experience, the Scotch philosopher inferred, that the lowness of the wages of labour is advantageous.

In short, almost all writers on subjects connected with political economy thought, that bringing the

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\* *Physiocratie*, Max. 19.



wages of labour down to the lowest rate was the true way of reducing the price of commodities, and insuring their sale abroad and at home.

Adam Smith has triumphantly refuted these doctrines, really distressing to humanity. He maintains, that the high price of the wages of labour is equally profitable to the state, and to general wealth.

He first shews that the cheapness or dearness of provisions has but little influence on the rate of the wages of labour, and that this rate is chiefly fixed by the demand for labour. If this be progressive, wages rise; if stationary, they decline; if retrograde, they leave but a very small pittance to the labourers.

These general rules are modified by several particular circumstances, such as the pleasantness or unpleasantness of the labour, the facility or difficulty of learning it, its being continual or interrupted, its requiring a greater or smaller degree of trust in the labourer, the greater or smaller probability of its success, the greater or smaller competition occasioned by apprenticeships, corporations, duties, and more or less facility in circulating the productions of labour.

Finally, he shews that the amelioration of the condition of the lower classes of the people is beneficial to population, which, in civilized society, is limited only by the scarcity of provisions among the lower orders; that it accelerates the progress of industry, tends to produce more work within less time and with less trouble; and that this increased produce compensates, and even exceeds the increase of wages.

This doctrine of Adam Smith concerning the wages of labour, leaves no doubt or uncertainty in

this part of the science, and must henceforth be considered as classical.

Wages of labour are no longer to be considered as arbitrary and depending on the high or low price of provisions. The price of labour has its laws, its principles, and its limits in the demand for labour; and this demand is constantly in proportion to the progressive, stationary, or retrograde state of national wealth.

A rise in the wages of labour, when it is the mere result of these general causes, ought not to occasion any uncasiness. It does not even raise the price of the productions of labour, because, being better paid, the labourer works more, and his productions are both in greater quantity and of better quality.

Thus the price of labour is, after all, independent of human passions and combinations; and it is extremely remarkable, that the principles by which it is regulated are all favourable to the interests of individuals, to the prosperity of nations, and to the progress of national wealth.

## CHAP. VIII.

*Conclusion of the Second Book.*

ON recapitulating the results of our inquiry into the nature and effects of labour, and into the causes which accelerate or impede its progress, we derive a lively satisfaction from the consideration that those doctrines by which labour is rendered barren, insulated, and subjected to restrictive laws, and by which its liberty is obstructed and its wages are reduced and limited, oppose an insurmountable obstacle to the formation and progress of wealth, to the developement of social energy, and to the political power of nations; whilst the theory which is favourable to the efforts of the labourer, which improves labour by sub-dividing it, allows complete liberty to the labourer, and liberally rewards his toils, gives to wealth an unlimited impulse, and is productive of great national benefits. These happy results ought to encourage philosophical inquirers in their meditations, enlighten legislators in their labours, and guide practical statesmen in the choice of their measures.



## BOOK III.

## OF THE VARIOUS SYSTEMS ON CAPITAL.

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CHAP. I.*Wherein do Capitals consist ?*

THE theory of capitals is new, and entirely of Adam Smith's creation. The notions afloat on this subject prior to his time, were confused, partial, and limited. The nature, formation, employment, and general and particular influence of capitals, were so many problems, or gave rise to numberless errors and misconceptions.

The first writers on political economy made capitals consist in metallic currency, and derived them from foreign commerce ; which caused their system to be denominated the mercantile system.

The French economists who attacked this system, and substituted the agricultural system, acknowledged no capitals but the advances on cultivation.

Adam Smith took a more extensive view of capitals. He stated them to consist in the advances and prime materials of all labours, in the improvements of the soil, in the implements and machines of agriculture, manufactures, and trade, which comprise both metallic

and paper currencies, and in commodities reserved for general consumption.\*

This enumeration of capitals is not absolutely above criticism. It certainly is a matter of surprise, that commodities reserved for consumption and incapable of being accumulated, should be ranked among capitals, which, according to Adam Smith himself, are the produce of accumulation ; but as this criticism is of no utility to the science, I shall not dwell upon it.

Some modern French writers appear disposed to assign the rank of capitals to lands, mines, and fisheries, which they regard as instruments of production, and little different from any other machine or implement destined to produce commodities.†

Lastly, a Noble English Author limits capitals to the instruments and machines proper to shorten and facilitate labour.‡

I think I shall give a correct and comprehensive definition of capital, by stating it to consist in the accumulation of the produce of labour.

According to this definition, lands, mines, and fisheries, in their original state, would not be comprised among capitals ; but, stripped of the improvements, instruments, and machines, which render them productive, they scarcely deserve to hold a place in the capital stock of any nation. Their spontaneous produce is but the smallest part of the general produce of

\* *Adam Smith's Wealth of Nations*, vol. i. book ii. chap. 1. and following.

† *De Say and Canard.*

‡ *The Earl of Lauderdale.*

labour, and cannot constitute any separate article in the wealth of nations. If we deduct from agricultural produce, the part which is due to cultivation ; from the produce of fisheries, that which is due to the implements and tools for fishing, and particularly to the art of salting, drying, and curing fish ; and from the produce of mines, that which is due to the aid of machines and extraordinary labours ; there remains so little, that there is no danger of erring in ranking them among the produce of labour, and admitting them only as such among capitals.

Capital, then, consists in the accumulation of the produce of labour.

In theory, capitals offer three different considerations, equally interesting to the science, to its progress, and to its results, viz. their formation, their employment, and their influence upon public and private wealth. Each of these considerations has given birth to various opinions, which it is important to analyse and investigate.



## CHAP. II.

*How are Capitals formed ?*

DR. Quesnay derives capitals from “economy in the costs of agricultural labour, from the savings in the expences of the land-owners, as far as those savings are applied to improve the soil, and from the increased price of commodities through foreign trade.”

But these means being analysed and reduced to their just value, contribute simply to form capitals by economy in consumption.

The saving in the costs of agricultural labour is no-wise different from economy in consumption. The expences of agricultural labour, like those of all other labours, consist in consumption. Consequently, the saving of agricultural expences is an actual economy in consumption, an economy no-wise distinct from that of the expences of the land-owners, which Dr. Quesnay considers as forming capitals, when they are applied to improve the soil.\*

The increased price of agricultural produce through

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\* The greatest part of the expences of land-owners are, at least, unproductive expences. Those only can be excepted which they incur to maintain and improve their estates, and to augment the cultivation of their lands. *Physiocratie, Seconde Observation sur le Tableau Economique.*

foreign commerce appears, at first sight, different from the two other means of forming capitals. But when analysed with care, it is evident that it can contribute to the formation of capital, only as far as it tends to increase the means of economy in the consumption of the land-owners.

According to Dr. Quesnay's system, the increased price of commodities, through foreign commerce, gives no advantage to the national over the foreign produce. He literally states that, "in the foreign trade, there is but an exchange of value for equal value, without any profit or loss on either side."\*

Thus foreign commerce gives neither more nor less commodities than what the exchanged home produce contained: it only gives different commodities: but as it is only after its price has been fixed in money, that the national and foreign produce is interchanged, it follows that the increased price of the national produce, through foreign commerce, only bestows upon it a greater value in money; that is to say, that a quarter of wheat, which without foreign commerce would have been worth only eighteen shillings, is worth twenty-four through the foreign commerce.

But by whom is this increase of six shillings per quarter paid? Not by the foreigner, since there is no other exchange with him than of value against equal value, without any profit or loss on either side; it is paid by the national consumer, and consequently the increase of price, through foreign commerce, has no other effect than to diminish the share of the

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\* *Physiocratie, Obs. 4 et 5, sur le Tableau Economique.*

labouring, or paid classes, in the national produce, and to augment that of the land-owners or paymasters; an augmentation advantageous to the formation of capital only as far as the land-owners apply it to improve the soil.

The increased price of agricultural produce through foreign commerce, like economy in the costs of labour, is therefore not distinct from economy in the expences of the land-owners; and, consequently, it may be affirmed that, in Dr. Quesnay's system, nothing contributes to the formation of capital but the savings of the land-owners, when they are devoted to agricultural improvements.

That this is the Doctor's opinion, cannot be doubted, since he positively denies to the savings of the paid or mercenary classes the faculty of increasing the capital stock; and the reason which he gives for it, is, that these classes cannot have any means of saving; and that, if they should happen to have any surplus, it could only proceed from an error or disorder in civil society.\*

Thus, according to the system of the French economists, nothing contributes to the formation of capitals but the savings of the net produce, when employed in agricultural improvements.

Adam Smith derives capitals from the greater or smaller quantity of productive labour relatively to un-

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\* If the unproductive class save to increase their money—their labours and profits will be diminished in the same proportion, and their decline, certain. *Physiocratie*, page 321.



productive labour, from the proportion of the productive to the non-productive consumers, and from economy in private consumption.\*

Let us investigate these different sources of capital, and we shall again see that they simply consist in economy in private consumption.

The proportion of productive to unproductive labour contributes, in Adam Smith's opinion, to the formation of capitals when it is in favour of the productive classes, when it leaves in their hands a disposable produce to be economized and used in extending and improving their labour. This proportion then affords nothing but a power of saving, and cannot be viewed in any other light.

The same may be affirmed of the proportion between the productive consumers and those whom Adam Smith denominates un-productive consumers. If this proportion be in favour of the productive consumers, if the latter exceed the number necessary for the maintenance of the non-productive consumers, they have a greater stock of disposable produce left, which they may economize and employ in more or less productive labours.

Thus the two first means, which, in Adam Smith's opinion, contribute to the formation of capitals, contribute to it merely by economy in consumption, and are necessarily the same with it.

We are not afraid of mistaking his opinion in this respect, since he positively states, that " capitals are

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\* *Adam Smith's Wealth of Nations*, vol. ii, book ii, chap. 3.

“ increased by parsimony, and diminished by prodigality and misconduct.\*”

It is deserving of remark, that Dr. Quesnay and Adam Smith, the one faithful to his agricultural system and the other to his system of productive labour, regard none but the savings applied to agricultural or productive labours as proper to form capitals. This circumstance revives, concerning the formation of capitals, the question which I have already discussed on the nature and effects of labour, and obliges me to examine the same question once more with particular regard to the formation of capitals. This new inquiry, by throwing a fresh light on the two systems, will tend to improve the science, elucidate its tenets, and fix its principles.

In whatever way economy may be effected, it leaves at liberty a sum of produce which is consumed by the idle, or by the labouring classes.

If by the latter, it serves to pay for more labour. The farmer, the manufacturer, and all undertakers of useful works, pay their labourers higher wages on condition that they shall either perform more labour, or perform it better; increased or improved labour gives more or better productions, and consequently more wealth.

Higher wages, at the same time, procure more comforts to the labouring class; and more comforts become the immediate and infallible cause of a greater population in that class.

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\* *Adam Smith's Wealth of Nations.* London: 1805. vol. ii. book ii. chap. 3. page 13.

Thus the savings consumed by the labouring classes evidently increase both wealth and population.

When the savings are consumed by the idle classes, they serve to employ a greater number of individuals in labours of luxury. Suppose the annual savings amount to one hundred quarters of wheat, and that the idle classes employ them in taking twenty individuals more in their service, what will be the consequence of the consumption of these savings?

These twenty individuals quit useful labour, to pass over to labours of luxury. The classes which they have quitted, repair their absence by more labour, and obtain higher wages. This increase of wages in a short time produces the same number of individuals of which these classes were composed; and the twenty individuals who left them, occasion an actual increase of population.

Being become necessary to the opulent class, these twenty individuals consume the one hundred quarters of wheat economized annually, and re-produce by their labour the capital with which they are fed. It matters little whether the savings be made by the idle classes, or whether they be borrowed by the latter from the labouring class. In the first case, the savings serve only to augment the population; in the second, the savings of the labouring class are exchanged for the capitals of the idle classes: and it ought to be particularly remembered, that this exchange of the savings of the labouring class for the capitals of the idle classes is no-wise injurious to the national capital; it simply effects a change of capitalists per-



fectly indifferent to the formation of capitals and wealth, and no-wise prejudicial to population.

It is, therefore, evident, that Dr. Quesnay and even Adam Smith were both mistaken, when they supposed that savings cannot contribute to the formation of capitals, except they are, in the opinion of the former, applied to agricultural, and according to the latter, to productive labour.

They still contribute to the formation of capital, though they be employed in labours of luxury.

This kind of labour, the least beneficial to wealth, constantly and infallibly replaces the savings by which it is paid, and consequently produces the population which is maintained by these savings.

Capitals, then, are always derived from economy, and can neither be formed nor increased otherwise than by economy.

This system has been strenuously opposed by the Earl of Lauderdale; and as the noble Lord is the only author who has raised a controversy on this subject, I hope I shall be pardoned for having rather extracted than analysed that part of his work in which he has endeavoured to subvert the doctrine established on this important point of political economy.

“ As animals,” says the noble Earl, “ are only  
“ multiplied by the means by which they are pro-  
“ duced; as vegetable substances also can only be  
“ increased by the means by which they are produced;  
“ as a greater quantity of metals and other productions  
“ from the bowels of the earth, can only be acquired  
“ by an increase of that labour which procures them;  
“ and as a greater quantity of raw materials can only

“ acquire the form that adapts them for consumption, by a more frequent repetition or skilful exertion of the labour that gives them form ; so wealth, it might be reasonably inferred, could only be increased through the means by which it is produced.

“ But popular prejudice, which has ever regarded the sum total of individual riches to be synonymous with public wealth, and which has conceived every means of increasing the riches of individuals to be a means of increasing public wealth, has pointed out parsimony or accumulation by a man’s depriving himself of the objects of desire to which his fortune entitles him, (the usual means of increasing private fortune,) as the most active means of increasing public wealth.

“ When we reflect, that this abstinence from expenditure, and consequent accumulation, neither tends to increase the produce of land, to augment the exertions of labour, nor to perform a portion of labour that must otherwise be executed by the hand of man, it seems that we might be warranted at once to pronounce that accumulation may be a method of transferring wealth from A, B, and C, to D ; but that it cannot be a method of increasing public wealth, because wealth can only be increased by the same means by which it is produced.

“ But when the public prejudice is confirmed by men most admired for talents ; when we are told by the most esteemed authority, that every prodigal is a public enemy, and every frugal man a public benefactor ; that parsimony, and not industry, in-

“ creases capital (meaning wealth) ; and that, as frugality increases, and prodigality diminishes, the public capital ; so the conduct of those whose expence just equals their revenue, neither increases nor diminishes it ; it becomes necessary to enter into a more minute examination of this opinion, and the more so, as it has given birth to an erroneous system of legislation which, if persisted in, must infallibly ruin the country that adopts or perseveres in it.

“ If capital, in all its varieties, is neither more nor less than a part of the produce of the earth, or a part of the earth itself, to which either nature or art has given a form that adapts it for supplanting or performing a portion of labour ; let us consider whether there are not bounds to the quantity of its revenue, which a country can, consistently with its welfare, bestow in this sort of expenditure, that is appropriate to the execution of this duty.

“ For the sake of perspicuity, we shall begin by considering the effects of accumulation in a simple state of society, where capital has not yet assumed all that variety of form, which man, in the progress of society, gives it, for the purpose of performing labour ; though the same observations will afterwards be found applicable to societies such as modern Europe presents to our view, where capital floats in all the variety of channels to which extended commerce destines it, and where even the natural channels, in which all property would fluctuate, are deranged by overgrown financial arrangements.



“ When society exists in that state where man is  
“ chiefly occupied in agriculture, his property can  
“ only consist in the land he possesses, in the grain  
“ he produces annually, in the breeding stock  
“ whose produce is reared for consumption, and,  
“ lastly, in the animals and utensils he employs to  
“ enable him to produce and consume his wealth with  
“ less labour ; that is, in a more satisfactory and com-  
“ fortable manner to himself. In such a state, there-  
“ fore, his property divides itself into three different  
“ branches.

“ 1. The land he cultivates.

“ 2. The stock he reserves for immediate and remote  
“ consumption.

“ 3. His capital, consisting of the animals or  
“ machines he employs to save labour in the cultiva-  
“ tion of his farm, or in the convenient consumption  
“ of its produce.

“ That this last part of his wealth is highly bene-  
“ ficial to himself, as well as to the society in which  
“ he lives, is undoubted ; it saves a portion of labour  
“ which must otherwise be executed by the hand of  
“ man, and may even execute a portion of labour  
“ beyond the reach of the personal exertions of man  
“ to accomplish. If, therefore, he is not possessed of  
“ a sufficiency of those animals, instruments, and  
“ machines, which form his capital, it will most  
“ clearly be commendable and in the highest degree  
“ advantageous to society, that he should augment  
“ the exertions of his industry, for the purpose of  
“ procuring them ; and if he cannot otherwise effect  
“ this augmentation, it may even be prudent and

“ beneficial that he should abridge a portion of his  
“ immediate consumption for the sake of increasing  
“ his capital; that is, that he should allot a part of  
“ the live-stock and grain he otherwise would imme-  
“ diately consume and enjoy, to purchase what would  
“ enable him, at a future period, to produce and  
“ consume more with greater ease and satisfaction to  
“ himself.

“ If, however, on the other hand, he is already in  
“ possession of as much capital, as, in the existing  
“ state of his knowledge, he can use for the purpose  
“ of saving labour in cultivating the quantity of land  
“ he possesses, it can neither be advantageous for  
“ himself nor for the public, that he should abridge  
“ his consumption of food, clothing, and the other  
“ objects of his desire, for the purpose of accumu-  
“ lating a much greater quantity of capital than can  
“ by possibility be employed in abridging labour.  
“ The extension of his lands or the invention of new  
“ means of supplanting labour would justify a desire  
“ for increasing his capital: but, otherwise, accumu-  
“ lation by deprivation of expenditure must be detri-  
“ mental to himself as well as to the public.

“ To the farmer it must be disadvantageous, because  
“ he deprives himself and his family of what they  
“ naturally desire, and would otherwise enjoy, for  
“ the purpose of acquiring either a larger quantity of  
“ labouring cattle than he could usefully employ, or  
“ of accumulating a hoard of spades, ploughs, and  
“ other utensils of husbandry, infinitely greater than  
“ he could use.

“ To the public it is still more disadvantageous,

“ because it diverts the channel of its industry from  
“ a path in which it must be useful, to a path in  
“ which, unless there is either an acquisition of ter-  
“ ritory, or a discovery of new means of supplanting  
“ or performing labour by capital, it is useless to  
“ mankind.

“ But further, to display the full extent of the evil  
“ that must arise from indulging this baneful passion  
“ for accumulation, that has been falsely denominated  
“ a virtue, it is necessary here to explain the sin-  
“ gular effect which the demand it creates must have  
“ on individual riches.

“ It has already been made evident, that a sudden  
“ demand for any consumable commodity, by increa-  
“ sing its value, encourages an augmented produc-  
“ tion, and tends therefore to increase wealth, though  
“ its effect is always counteracted by the more  
“ important diminution of the value of other commo-  
“ dities, (from which the sudden rise of the value of  
“ any one commodity abstracts a portion of demand;)   
“ because the check given to production, by the  
“ abstraction of demand, has a more powerful effect  
“ in diminishing wealth, than the encouragement  
“ arising from an extention of demand has in aug-  
“ menting it.

“ Thus a diminution of value must be produced  
“ not only in the articles for which parsimony  
“ occasions an abstraction of demand, but even in the  
“ article for which it creates a demand; and public  
“ wealth must severely feel the effects of the dis-  
“ couragement by this means given to the production  
“ of both.



“ The public must therefore suffer by this love of  
“ accumulation if pushed beyonds its due bounds;  
“ first, by the creation of a quantity of capital more  
“ than is requisite; and, secondly, by abstracting a  
“ portion of encouragement to future reproduction.”\*

Is this criticism of the doctrine of the best writers on the formation of capital sufficiently luminous and well founded? Are not the noble Earl's notions of wealth, capital, and economy, incorrect? and is not the doctrine which he wishes to preach the offspring of his misconceptions on these subjects?

If, as cannot reasonably be disputed, and as has been, I hope, sufficiently shewn, wealth results from the accumulation of the surplus of the produce of labour over consumption; it is evident that wealth may be increased by other means than those by which it has actually been produced.

Suppose, for instance, that a nation accumulates every year ten millions of produce, it is perfectly indifferent whether these ten millions are derived from the usual produce or from the savings in the consumption of that produce: in both cases, there are ten millions of commodities accumulated and kept in store for unforeseen accidents, for the improvement of the soil, for the extension of labour and increase of population; consequently public and private wealth is ten millions larger than it was before.

But will not these ten millions saved be detrimental to reproduction? Whenever consumption can do

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\* The *Earl of Lauderdale's Inquiry into the Nature and Origin of Public Wealth*. Edinb. 1804. c. iv. p. 207, and following.

with ten millions less of annual produce, will not production be annually ten millions less? And does not the nation in that case lose in production what it has gained by economy in consumption?

Were this argument founded, it would as well apply to an increased annual produce of ten millions as to a saving of ten millions. There would be in both cases a surplus of ten millions, which, as it exceeds the real wants of consumption, would diminish reproduction by as much.

Yet no person ever thought of regarding an augmentation of produce as a sign of poverty and decline, or as a diminution of wealth; on the contrary, it is justly regarded as an infallible symptom of prosperity, wealth, and grandeur: why then should an increase of ten millions saved have a different effect?

The ten millions arising from an increased produce, or from saving, are capable of the same application, produce the same effect, and accomplish the same end.

They either are distributed to individuals whose situation is rendered more comfortable, and who pay for them with more or better labour; in this case they act as an encouragement to labour and industry, and multiply the means of public and private wealth.

Or they are given to individuals taken from the labouring and industrious classes, to be employed in the service of the idle and rich: in that case they increase population by all the individuals they maintain.

Such is the natural effect of economy and of an increased produce; both contribute equally and in the

same proportion to the progress of population and wealth. There are no limits to this progress but in the utmost extension and improvement of agriculture, manufactures, commerce, population, and civilization, all over the world. As long as civilized countries have not reached the highest possible perfection of civil society; as long as barbarous nations have not attained the highest degree of civilization; as long as there is in any part of the globe a spot of land to be cleared, cultivated, and improved; as long as mankind have not arrived at the developement and improvement of which they are susceptible, economy in consumption and an increased produce will both be means equally proper to accomplish that desirable end. Mankind therefore ought never to be tired of increasing their produce and being economical in their consumption.

The maxim of political economy, that consumption is the measure of production, is an incontestable truth: it is certain that a produce which finds no consumer, is not long reproduced. But the real meaning of this principle must not be mistaken, nor must it be inferred that an abundant and even over-abundant produce is not consumed. The abundance of productions is always an incitement to a greater consumption; and as abundance is wealth, wealth in its turn affords the greatest possible means of consumption.

When then does it happen that production is limited by consumption? It is when the consumer does not like the commodities produced, or when he is unable to pay their price. The producer is every-where obliged to consult the taste and faculties of the con-



sumers, and it is only when he is mistaken in these two respects, that non-consumption is detrimental to reproduction. He may produce as much as he pleases, his produce will be consumed, provided it suits the consumers and they have the means of paying for it. Abundance and cheapness, these are the two springs of consumption and reproduction; and as economy necessarily produces both, it follows that economy is not prejudicial either to consumption or to reproduction: on the contrary, it is beneficial to both.

Is the same Noble Author correct, when he states capital to consist only in machines and instruments proper to shorten or facilitate labour, and an economy which tends to multiply capital beyond real wants, to be injurious, because it diverts capital from an useful path to make it flow into an useless channel?

Did the capital of a country consist in nothing but machines and instruments proper to shorten or facilitate labour, it is certain that an economy which should unnecessarily increase their quantity, would be unprofitable and even detrimental to public prosperity. But this kind of accumulation is not commonly that which parsimony has in view, nor is it that which its partisans recommend; and if a few individuals are saving to obtain a larger number of machines, tools, and instruments, than they have occasion for; such cases are rare; they are eccentricities and whims undeserving of either the attention of the statesman, or the meditation of the philosophical inquirer.

The capital, of which the best writers recommend the increase by parsimony, consists, as has been

observed before, in the advances and raw materials necessary to all kinds of labour, in the improvements of the soil, in the instruments and machines proper to abridge or facilitate labour, and in the produce kept in store for present, future, and distant consumptions. This theory seems indeed proof against any criticism.

If economy increase the totality of advances and raw materials wanted in all kinds of labour, the means of labour are increased, and consequently there is more raw and manufactured produce in existence.

If it increase the improvements of the soil, the soil is rendered more productive.

If it multiply the machines and instruments which abridge or facilitate labour, the productions of industry are more abundant, of a better quality, at a lower price, and within the reach of a greater number of individuals.

Finally, if economy augments the totality of commodities, their abundance is a premium to augment population, and a means of private and public wealth.

Thus economy, by extending and improving every branch of capital, has the same effect as the productiveness of the soil, the progress of industry, and the speculations of commerce. It augments public and private wealth; and, as has been very justly observed by Adam Smith, it is economy and not industry which increases the capital of a nation.

## CHAP. III.

*How are Capitals employed ?*

IN proportion as capital is created, it follows various employments, which divide it into as many distinct branches, of which Dr. Quesnay enumerates four :

The original advances, which have cleared the ground ;

The annual advances, which reward the labour of the husbandmen, preserve the original advances, and provide against the accidents inseparable from that kind of labour ;

The advances of the unproductive classes, which serve to pay for the raw materials and wages of labour ;

Lastly, the advances of the merchants who defray carriage and warehouse expences, which this author considers as a stock distinct from the national capital.

Adam Smith took a more enlarged view of the employment of capitals. He assigned them more importance, and, as it were, revealed their power.

He devotes part of them to immediate consumption, which he states to consist of food, clothing, household-furniture, dwelling-houses, and all objects of conveniency and comfort.

The second of the three portions, into which he divides the general stock of the society, is called the **fixed capital**, the characteristic of which is, that it



affords a revenue or profit without circulating, or changing masters. It consists chiefly of the four following articles: 1st, of all useful machines and instruments of trade which facilitate and abridge labour; 2d, of all those profitable buildings which are the means of procuring a revenue, not only to their proprietor, who lets them for a rent, but to the person who pays that rent for their use; 3d, of the improvements of land; and 4th, of the acquired and useful abilities of all the inhabitants or members of the society.

The third and last of the three portions into which the general capital stock of a community naturally divides itself, is called by Adam Smith the circulating capital: its characteristic is, that it affords a revenue only by circulating, or changing masters. It is composed, 1st, of the money, by means of which all the other three are circulated and distributed to their proper consumers; 2d, of the stock of provisions, from the sale of which a profit is expected; 3d, of the materials, whether rude or not completely manufactured; and 4th, of the work which is made up and completed, but not yet disposed of to the proper consumers.

This enumeration and classification of capitals appears totally different from that of Dr. Quesnay; and yet it is easy to perceive that they approximate to a certain degree, and are really at no very great distance.

The capital which Adam Smith calls a fixed capital, is partly the same with that which Dr. Quesnay calls original advances to put the ground into a state of cultivation.

The only difference worthy of remark between these original advances and the fixed capital is, that Dr. Quesnay calls those advances only original ones which have put the ground into a state of cultivation; while Adam Smith gives the name of fixed capital not only to the improvements of the land, but also to the instruments and machines which facilitate and shorten labour, and to the acquired and useful abilities of all the members of the community.

This diversity of opinion is, with these two authors, the just consequence of their different theories concerning the source of wealth, which one places in agriculture, and the other in any labour which fixes and realizes itself in some permanent object.

The inquiry which I have made into these two opinions in the preceding book, renders all further discussion unnecessary.

Yet it may be useful to observe, in support of the opinion which I have established, that Adam Smith, by assigning to the acquired and useful abilities of all the members of the community a place in the fixed capital, has to a certain degree destroyed the restriction with which he had shackled the productiveness of labour.

If it be true, as he has taught, that productive labour is that which fixes and realizes itself in some permanent object, and if it be the essential and distinctive characteristic of a fixed capital to produce a revenue, that is to say, a fixed and permanent object, it would be necessary that acquired and useful abilities should produce a revenue or a fixed and permanent object: and as it is certain that the labours of most

useful and acquired abilities are not fixed and realized in a permanent object, it is evident that they have been improperly comprised in the fixed capital by Adam Smith.

Or if, as I flatter myself to have made manifest, any labour is productive of the stock that pays for it, and ought, on that account, to be comprised in the fixed capital; then it is evident that Adam Smith was mistaken when he denied productiveness to labours which do not fix and realize themselves in any permanent object.

The alternative is unavoidable, and helps to corroborate the reasons which induced me to oppose Adam Smith's opinion on this head.

That part of capital stock, which Adam Smith denominates the circulating capital, is nearly the same with that which Dr. Quesnay calls annual advances.

Both destine this part of the capital stock of a country to provide for the divers wants of agriculture, manufactures, and commerce; they only differ in so far as Adam Smith admits the metallic currency of the country into the circulating capital, which is not mentioned at all by Dr. Quesnay.

We ought, however, to be little surprized at this omission, on the part of Dr. Quesnay, and the French economists. The theory of circulation, of which a metallic currency is the principal instrument, had made but small progress at the time they wrote, and its benefits could not easily be foreseen, nor its extent, resources, and results, calculated.

But is it true, as Adam Smith has taught, that the



metallic currency of a country forms part of her circulating capital, and is not only of no benefit to wealth, but even burthensome to it as an object of expence ?

Many writers on subjects connected with political economy have not adopted this part of Adam Smith's theory. On the contrary, they think that money operates in the same manner as other machines employed in agriculture, manufactures, and commerce; and tends, like them, to shorten and facilitate labour, and is, of course, productive of whatever the exchange of commodities costs less than what it would have cost without the assistance of money.\*

But none has placed this truth in a more luminous point of view, than the Earl of Lauderdale. Though the demonstration of the noble Earl be rather long, I am yet convinced the reader will thank me for transcribing it entire; because it explains, in a novel and truly ingenious manner, the operation of money in the interchange of the produce of labour.

“ In considering how that portion of the national capital, employed in conducting circulation, produces a profit, it is necessary,” says the Noble Lord, “ clearly to distinguish what forms circulating capital, from the goods that are circulated by means of capital; and this becomes the more so, because we are accustomed to see these two things, however different, almost uniformly confounded by those who have treated on the subject.”

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\* *Traité d'Economie Politique, par Jean Baptiste de Say.* Paris. 1803. vol. i. page 12.

“ From the manner in which the circulation of  
“ most European countries is at present conducted,  
“ the circulating capital may be properly regarded as  
“ composed either of the coin or of the substitutes  
“ for coin, which banking and the modern facilities  
“ of conveying credit have created. To these, there-  
“ fore, we confine our views; conceiving them to  
“ form what may, with strict propriety, be denomi-  
“ nated the circulating capital of a country. (The  
“ other three articles of which the author of the  
“ *Wealth of Nations* imagined circulating capital to  
“ be composed are not employed in circulating, but  
“ are actually goods to be circulated. They are, in  
“ fact, portions of what is reserved for consumption.)  
“ And a little examination will suffice to shew that  
“ gold and silver, as coin, are alone estimated by men  
“ for their utility in abridging labour, as well as that  
“ the advantage, which the public derives from the  
“ improved method of circulation by means of banks,  
“ is founded on the same principle.

“ Money is of use to mankind in two different  
“ capacities; as an instrument of exchange, and as  
“ a practical standard, by which the value of all com-  
“ modities is measured and expressed. To convey a  
“ clear idea how the portion of the national capital  
“ employed in executing these two duties, is profitable  
“ merely from the circumstance of its supplanting  
“ labour, perhaps no better method can be followed,  
“ than to consider what would be the effect of with-  
“ drawing from any society that part of its capital  
“ which is employed in conducting the circulation of

“ goods, and in forming a practical standard by  
“ which the value of commodities is measured and  
“ expressed.

“ The moment this portion of the national capital  
“ is abstracted from any society, the exchange of  
“ those things which nature or art enables one man  
“ to produce with greater ease, or of better quality,  
“ for those things which similar circumstances enable  
“ another to produce with greater advantage, must  
“ be conducted by barter.

“ A farmer, for example, who had in his barn a  
“ quantity of wheat, much greater than the consumption  
“ of his family, and who destined the overplus to  
“ supply the other articles necessary for their clothing  
“ and nourishment ; if he wanted a pair of shoes,  
“ would be obliged to proceed with a quantity of his  
“ wheat to a shoemaker to endeavour to negotiate an  
“ exchange : but as it might probably happen that  
“ the first shoemaker he accosted, had already, in  
“ return for shoes, obtained all the wheat he meant to  
“ consume, he would be under the necessity of  
“ remaining without shoes, till he could find a shoemaker  
“ who wanted wheat.

“ If, unfortunately, the whole profession were already  
“ supplied with wheat ; to obtain a pair of  
“ shoes, he would be under the necessity of endeavouring  
“ to discover what was the article the shoemaker  
“ wished to procure ; and if, on inquiry, it  
“ appeared that beer was the commodity with which  
“ the shoemaker wished to be supplied, the farmer  
“ must then endeavour to procure from the brewer a



“ quantity of beer in exchange for his wheat, as a  
“ preliminary for his future negociation with the  
“ shoemaker.

“ But the brewer might also be supplied with  
“ wheat ; which would oblige the farmer, in the first  
“ instance, to endeavour to exchange his wheat for  
“ some commodity the brewer wanted, that with it  
“ he might purchase the beer, with which he after-  
“ wards meant to acquire his shoes.

“ Tedious as this process may appear, it is one of  
“ the simplest cases that could be stated for the pur-  
“ pose of pointing out and explaining the laborious  
“ path which every man, if the circulating capital of  
“ a country were obstructed, would be obliged to  
“ tread, in endeavouring to supply his wants by part-  
“ ing with his superfluities : for it is plain that the  
“ course would often be infinitely more tedious and  
“ intricate before the goods of one man could be  
“ repeatedly bartered, till they at length became  
“ exchanged for the particular commodity which  
“ another wanted.

“ Neither is this the sole source of the labour that  
“ would be imposed on man, by withdrawing the  
“ capital employed in the conduct of circulation.  
“ As there would then exist no general standard by  
“ which the value of commodities was usually esti-  
“ mated, an inquiry must of necessity take place in  
“ settling the terms of every particular exchange, to  
“ ascertain the relative value of commodities.

“ For example, if the brewer, to whom the farmer  
“ applied, wished to have some wheat, and it so

“ happened that neither the farmer had antecedently  
“ exchanged wheat for beer, nor the brewer, beer for  
“ wheat, they would be at a loss to fix the quantity  
“ of wheat that should be given for a gallon of beer.  
“ If, indeed, each had luckily procured already a leg  
“ of the same sheep, in exchange for the commodity  
“ they respectively possessed, they might then dis-  
“ cover the relative value of the wheat and the beer;  
“ because two things equal to one and the same thing  
“ are equal to one another: but as it would probably  
“ happen, that the farmer and brewer had never  
“ exchanged wheat and beer for the same commodity,  
“ they could not have recourse to this easy mode of  
“ deciding the portion of wheat that ought to be  
“ parted with for the acquisition of a given quantity  
“ of beer. The course, therefore, the farmer would  
“ have to pursue, even after he had undergone the  
“ labour necessary to discover a brewer who wanted  
“ wheat, might be infinitely laborious, before he  
“ could trace out, through the medium of various  
“ exchanges, some one interchange, that afforded a  
“ point of comparison betwixt the value of the wheat  
“ and the beer.

“ If this, however, could not be discovered, he  
“ would be obliged, as the only means of ascertaining  
“ the terms of the exchange, to institute an inquiry  
“ into the proportion betwixt the demand for and the  
“ quantity of the beer, and also into the demand for  
“ and quantity of the wheat; these being the circum-  
“ stances on which the relative value of all commo-  
“ dities depends.

“ The beer being procured, it is plain he might be  
“ under the necessity of repeating the same operation  
“ in negotiating the exchange for the shoes.

“ Thus it is obvious, that the portion of a capital  
“ of a country employed in conducting circulation,  
“ is not only profitably employed, by saving the  
“ labour of man, in its character of an instrument  
“ for conducting exchanges, but also in its capacity  
“ of a standard for measuring the value of commodities.

“ It is not, perhaps, at first sight so apparent, that  
“ circulating capital is profitable to mankind from the  
“ circumstance of abridging labour, as it is that the  
“ profit of a machine is derived from that source : but  
“ there is in reality no part of the capital of a nation  
“ that abridges a greater portion of labour, certainly  
“ none, the benefit of which in abridging labour is  
“ more universally enjoyed.

“ The labour of the manufacturer fixes and realizes  
“ itself in some vendible commodity. Its existence,  
“ as productive labour, is therefore more easily discernible,  
“ than the labour of the menial servant,  
“ whose services generally perish at the instant of  
“ performance. The labour of a manufacturing machine,  
“ in like manner, fixes itself in some vendible  
“ commodity, which makes the origin of its profit  
“ more apparent than that of circulating capital,  
“ whose services, like that of the menial servant,  
“ perish at the instant of their performance ; but  
“ which, like his too, remain, at all times, prepared  
“ to abridge the necessity of another portion of



“ labour, which the master must otherwise perform.\*

“ Though coin, employed as circulating capital, has been thus eagerly sought after, not for the sake of the gold and silver it contains, but merely on account of the labour, it supersedes; like other means of superseding labour, it requires, though an inferior, yet a certain portion of labour to procure it. To carry it about when procured, is also, from its bulk and weight, laborious. To save these remaining portions of labour in conducting the circulation of a country, various modifications of banks have been successively introduced, highly beneficial to the community in which they have been established, from their superseding the labour formerly performed by the sovereign of procuring coin, and that performed by the subjects of making payments in it, and also from their executing with a machine of little value, the labour antecedently performed by a very expensive instrument.

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\* The similarity between the labour of the menial servant and that of circulating capital, is indeed such, that it is natural to suppose, the same circumstances which led to the one being deemed unproductive, would create the same impression with relation to the other. Accordingly, the author of the *Wealth of Nations*, who conceives the labour of the menial servant to be unproductive, informs us, that the “ gold and silver money which circulates in any country, and by means of which, the produce of its land and labour is annually circulated and distributed to the proper consumers, is, in the same manner as the ready money of the dealer, all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country.”

“ It is from this last circumstance, undoubtedly,  
“ that most countries derive what has been esteemed  
“ the greatest benefit they enjoy from the modern  
“ improved method of conducting the circulation of  
“ commodities. Yet it seems to be to the desire of  
“ man to shorten labour, that we are indebted for  
“ the invention: for banks, we are told, were first  
“ introduced into Sweden, where, the money being  
“ all of copper, it was highly inconvenient, by reason  
“ of its weight and bulk, to carry it about in such  
“ quantities as was necessary to conduct exchanges.

“ In truth, though a country may derive much  
“ benefit from having a cheaper medium of exchange,  
“ insomuch that, if there is a scarcity of capital, it  
“ will by this means have more for other uses; yet  
“ this consideration never could form the motive of  
“ any individual for preferring one medium of ex-  
“ change to another. To the seller of a commodity,  
“ the value of the medium of exchange is perfectly  
“ indifferent, provided he is sure it is in equal estima-  
“ tion with those from whom he subsequently means  
“ to purchase. A man can alone have an interest in  
“ the value of what he produces and what he con-  
“ sumes: but coin, or its substitutes, are never con-  
“ sumed; they only pass from one to another for the  
“ purpose of saving labour in the conduct of exchange;  
“ and the only immediate interest that he who  
“ accepts a given quantity of any medium of exchange  
“ can have is, that it should save as much labour as  
“ possible. It is on this principle that silver is pre-  
“ ferred to an equal value of copper; that gold, in  
“ making large payments, is preferred to both; and

“ that bills of exchange supersede, with advantage,  
“ the use of the metals in extended commercial  
“ concerns.\*”

This discussion on the nature and effects of money, though rather incorrect with regard to coin itself, as I shall show hereafter, seems to prove, to demonstration, that money, considered simply as a machine proper to shorten or facilitate labour, ought to be ranked with any other machine of that kind in the fixed capital destined to produce a revenue. It is therefore unjustly that Adam Smith has considered it as a circulating capital, which he thinks expensive and diminishing the general income by as much as its keeping costs.

But do bills of exchange, paper money, bank notes, promissory notes, and public stocks, form capitals, and are they part of the fixed or circulating capital?

They seem entitled to be considered as capitals, because they have all the properties and perform all the functions of capital. Sometimes they assist the circulation of other parts of capital, and sometimes they afford a revenue, and, producing the same effects, they actually appear to be similar to money.

On the other hand, it is clear that they ought not to be considered as capitals, because they have no value of their own, and only represent a mortgage which itself constitutes a part of capital. Bills of exchange and other notes represent the merchandize which they cause to circulate. The mortgage of pri-

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\* *The Earl of Lauderdale's Inquiry into the Nature and Origin of Public Wealth.* Chap. iii. § 5, page 187, and foll.



vate promissory notes consists in the moveable and immoveable goods of the debtor. And public funds or stocks have their mortgages in a particular branch of the revenue.

This merchandize, these moveable and immoveable goods, and this branch of public revenue, constitute part of the fixed capital, of the circulating capital, and of the stock reserved for immediate consumption : it would, therefore, be assigning a double employment to the same thing, if they were comprised in the capital of a country ; which would lead to a confusion subversive of the first principles of political economy.\*

It is improperly that Adam Smith has placed them on a par with metallic currency, assigned them the same nature, and enumerated them as part of the capital of a country. That bills of exchange, notes and stocks belong to other branches of the science, will be proved hereafter, when I shall inquire into their nature, effects, and co-operation in the formation and distribution of wealth.

Lastly, that part of capital which Adam Smith reserves for immediate consumption, is exactly that which Dr. Quesnay calls revenue.

The latter asserts, that “ the totality of the revenue “ must return to annual circulation, and pervade it “ through all its extent ; and that no pecuniary for-

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\* Commercial capital, let it then be understood, consists not in paper, and is not augmented by the multiplication of this medium of payment. *An Inquiry into the Nature and Effects of the Paper Credit of Great Britain ; by Henry Thornton. Chap. i.*

“tunes can be accumulated, or, at least, that there  
 “must be a compensation between those that are  
 “accumulated and those which return to circu-  
 “lation.”\*

Adam Smith has been silent on the hoarding of money destined, not only to distribute the income to all classes of the community, but also to assist the circulation of all the other parts of capital. Are we to attribute his silence to simple omission, or to the inutility or little importance of the subject?†

Metallic currency, as we have seen before, is a mere instrument, proper to circulate the produce of labour, whatever this produce may be. Abstracted from this destination, or hoarded, it becomes like a merchandize that is not in commerce; and which, as long as it remains out of it, has no value or use for any one. It is as if it did not exist, as if it were still buried in the bowels of the earth.

When hoarding is the effect of the passion for gold and silver, which is so violent in some individuals, that they sacrifice to it all other interests, it is of little importance with regard to wealth, because it never is attempted to any great extent. All the harm that arises from such hoarding is, that it forces the nation

\* *Physiocratie*, Max. 7.

† Although money constitutes no part of the capital stock reserved for consumption or revenue, and although Dr. Quesnay has improperly confounded it, I yet thought it my duty to discuss here the question about the hoarding of money, to which his theory of revenue gives rise.

to a larger purchase of precious metals, and occasions it a little more expence.

Hoarding becomes of some importance only when it takes place in consequence of political causes or mal-administration, when the minds of men are uneasy about public affairs, or when their safety and property are threatened. In such cases, the hoarding may be so considerable, that capitals may not be easily or but partially circulated; that, according to Dr. Quesnay's expression, the distribution of part of the annual income of the nation may be paralyzed; that the returns of the advances on cultivation, of the wages of labour, and of the consumption of the different classes who exercise lucrative trades, may be impeded; and that the re-production of the revenue and taxes may be diminished.\* Instances of such hoarding are met with wherever government respects not persons and property, nor causes them to be respected; and in times of political commotions.

Political economy affords no remedies against this calamity.

To substitute a paper currency to the hoarded coin, is impossible; because, wherever the stability of government is threatened, and wherever government either will not, or cannot protect persons and property, there is no public credit.

As the interchange of the produce of labour is the source of wealth, whatever endangers the safety of individuals, the circulation of productions, the return and peaceable enjoyment of equivalents, causes the

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\* See the preceding note,



metallic currency to be eagerly sought for by all classes of the community, occasions its being hoarded, and opposes an insurmountable obstacle to that credit which might, to a certain degree, supply its place.

To import precious metals for the purpose of converting them into money, and thus replace the coin that has disappeared from circulation, can be done only at a great expence, and is not of material assistance. The operation can only be entrusted to merchants, who cannot perform it otherwise than by the exchange of national produce : but commerce is liable to all the chances which occasion the hoarding of coin. Nothing can induce merchants fearing for their property, to import precious metals but the certain prospect of a considerable benefit which is to indemnify them for the risks to which they expose themselves, or afford them, in fraud and corruption, a guarantee which they find not either in the laws or in government. To complete the misfortune ; when the newly imported precious metals are circulated in the shape of coin, they do not remain long in circulation ; the same motives which caused the old coin to be hoarded, cause the new coin to disappear ; the penury continues the same, and the scantiness of circulation dries up every source of wealth.

Against these inconveniencies, the constant attendants of political commotions and bad governments, science loses its power, and all those measures, which political economy disavows, are but juggling tricks or miserable palliatives, which aggravate the evil and delay its cure, or render it impracticable.

Thus capital stock, considered in its three great

divisions, as fixed capital, circulating capital, and capital destined for immediate consumption, provides for the wants of labour, contributes to its progress in proportion to its own increase, and always affords an exact measure of the progress of national wealth.

There is a fourth employment of capital, distinct from those which I have just examined, the nature of which is not yet completely ascertained, neither are its effects certain or sufficiently known; I mean its being lent out at interest either to private individuals or to the public. Authors are not yet agreed respecting either the utility or the disadvantages of this kind of employment of capital.

Dr. Quesnay has considered this subject both with regard to the interest of the capitals thus employed, and the nature of national debts; his observations on these two points are very concise, and rather dogmatical than luminous.

He states that, "if money is lent out at a high rate of interest, it shews that the country has not money enough in proportion to its income, since the use of it is so dearly paid for.

"On the other hand, he would have governments to avoid loans which pay interest, and burthen the state with all-devouring debts; and in case of extraordinary necessities, he would have them to have recourse to the resources of the nation, and not to the credit of financiers."\*

Adam Smith has carefully and amply discussed the

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\* *Physiocratie.*

subject. He begins by ascertaining the part which metallic currency performs in the lending out of capital stock at interest; and clearly shews, that it is, but the means, the instrument by which the lender conveys to the borrower the material productions of labour. "Money," says he, "is neither what the borrower is actually in need of, nor what the lender provides him with to supply his wants. The former only requires, and the latter but gives the value of the money, or rather the commodities, which the money may purchase:" whence he infers, that the abundance or scarcity of metallic currency has no influence whatever on the interest of capital.

He regulates this interest by the quantity of capitals to be lent out, by the competition between the various owners of capital, and by the profit of capital employed in the divers branches of labour in general.

He examines the effects of this kind of employment of capital upon national wealth, and is of opinion that whenever the capital devoted to loans, is such as the owner does not chuse to employ himself, no injury arises, provided the borrower employs it in some productive labour; but that the matter is altered when such capitals are immediately consumed, and consumed without any reproduction, which is the case with public loans.

He admits, however, that the resource of public loans to which modern states resort, preserves the rest of the capitals employed in productive labour which might have been affected by the contributions required by the necessities of the state. But after having weighed



the advantages and disadvantages resulting from this method of providing for extraordinary wants, he still regards it as a cause of weakness or distress in every country where it is adopted.

This rapid analysis of the opinion of these two authors on capitals lent out at interest, plainly shews that they agree respecting public loans, and only differ about the causes which fix the rate of interest or profit of the capitals lent out at interest.

If the difficulties with which this subject is involved, concerned this single point, it would be easy to dispel them, and to shew that Adam Smith was right when he asserted that the abundance or scarcity of coin has no influence whatever upon the rate of interest or profit of capitals lent out.

But capital stock performs so conspicuous a part in the political economy of modern nations, governments pay so little regard to the tenets of philosophical inquirers, and theory and practice are so openly at variance, that it is important not to neglect any means to put an end to all doubts, to dispel the clouds in which this part of the science is still enveloped, and to throw upon it the same light which has been thrown upon the rest.

All capitals are derived from economy in consumption. They must therefore necessarily consist in a produce of labour susceptible of being consumed. In the same manner as metallic currency enables capitals to find three principal kinds of employment, which Adam Smith has so properly characterized by the denomination of fixed capital, circulating capital, and capital stock reserved for consumption, it enables

them to be employed in loans at interest; and just as the abundance or scarcity of metallic currency does not fix the rate of their employment in the first three instances, it neither fixes it in the last. I shall not examine whether there is a general law by which these four species of capital are regulated, or whether each follows a particular law; this discussion would lead me into too great a detail: I will only remark, that as the metallic currency is not the actual capital lent out at interest, but simply the means, the instrument which conveys the borrowed capital from the lender to the borrower; it is not by the size of the instrument that the rate of interest can be fixed. Whether it has required sixteen pieces of silver coin or four of gold coin to convey a quarter of wheat from the lender to the borrower, is perfectly indifferent; nothing has actually been lent but a quarter of wheat; and it is from this quarter of wheat that the interest is due, and not from the sixteen pieces of silver or four pieces of gold coin which helped to effect the loan; let the number of the gold or silver pieces be multiplied or diminished, there still is a quarter of wheat borrowed, neither more nor less, and consequently the interest which it ought to pay can neither be increased nor diminished \*.

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\* The abundance or scarcity of money, the facility or difficulty of finding credit, which are the instruments of the loan of a quarter of wheat, may, it is true, have some influence on the rate of interest; but merely as accessaries, not as an efficient cause. Just as the carriage of a quarter of wheat does not constitute its price, so the dearness or cheapness of money or credit with which a loan is effected, does not determine the rate of its interest.

But what is it that determines the rate of interest?

Several causes, independent of the abundance or scarcity of money, contribute more or less powerfully to fix that rate.

The first, and no doubt the principal cause, is the number of quarters of wheat ready to be lent out, compared to the number of those that are wanted to be borrowed. Even when the quantity is equal, the rate of interest differs according as the number of lenders is more or less considerable than that of borrowers, and *vice versa*.

The second cause is the safety or risk of the quarter of wheat being returned and the stipulated interest paid; and according as the borrower has the reputation of more or less probity, and solvency, and can be forced to pay at the expence of more or less money and time, the rate of interest is high or low.

Lastly, the rate of interest is lowered or raised in proportion to the benefit derived from a quarter of wheat employed in paying the wages of different labours.

These are the causes which contribute more or less powerfully to fix the gain of capital lent out at interest.

The uncertainty and continual fluctuation of these causes sufficiently account for the difficulty of fixing the interest in a steady and permanent way, and avoiding the inconvenience of allowing it to be arbitrary. Hence the controversy, whether the rate of interest is to be fixed by law?

Adam Smith saw no difficulty in the question. He not only acknowledges, that the law may fix it,



but he also states the principles by which the rate of interest ought to be regulated.

He says, the rate of interest ought to be fixed somewhat above the lowest market-rate of interest usually paid by those who can give the greatest security to the lenders: if it were fixed below the lowest market-rate, it would be tantamount to a total prohibition of interest, the creditor would not lend at a lower rate than the current one, and the debtor would be obliged to pay, besides the market-rate of interest, a surplus to insure the creditor against the risk he is exposing himself to by lending money at a higher than the legal interest. If, on the contrary, it is fixed precisely at the lowest market-price, it ruins, with honest people who respect the laws of their country, the credit of all those who cannot give the very best security, and obliges the latter to have recourse to exorbitant usurers\*.

If the legal rate of interest were much above the lowest market-rate, the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give such high interest; and sober people would not find as much money as they want for their concerns, because they

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\* The French author has not done strict justice to the opinion of Adam Smith by saying: "Si au contraire l'interêt étoit fixé au taux le plus bas du marché, ce taux seroit onéreux aux honnêtes gens qui respectent les lois de leur pays, et ruineroit le crédit de ceux qui, avec les meilleures sûretés, ne pourroient s'en procurer que par le moyen des usuriers et au taux le plus exorbitant." I have preferred Adam Smith's own words. *Wealth of Nations*, vol. ii. book ii. c. 4, p. 45. Edition of 1805, 8vo.—T.

would be unwilling to pay this high interest ; so that a great part of the capital of the country would be kept out of the hands most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it.

This doctrine, notwithstanding its wisdom, has not been adopted by later writers ; and the French translator of Adam Smith's work, whom I mentioned before, has combated it with the energy and force proceeding from the consciousness of defending a truth useful and profitable to his country.

“ In every case,” says that French writer, “ in which the parties concerned have themselves stipulated the interest, it is absurd or unjust in the law to pretend to interfere with their agreement: to competition alone it belongs to fix the rate of interest, just as it ought to fix the rate of wages and profits, or the price of commodities. When the parties concerned deviate from the market-price of interest, they probably have been induced to it by peculiar circumstances which the vigilance of private interest is better able to appreciate than the most enlightened magistrate.”\*

This opinion has prevailed over that of Adam Smith ; and for the last five-and-twenty years none of the best writers on political economy have professed any other.

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\* *Abrégé Elémentaire de l' Economie Politique, par le Sénateur Germain Garnier.* Paris, 1796. Chap. iv. article iv. section 3, § 4.

But governments have paid little attention to the opinions of philosophers, and seem to cling still faster to a legal rate of interest. Whether they are afraid of the check which this innovation might give to circulation, or whether experience has taught them that the wants of debtors would exceed the means of creditors, and made them apprehensive that, in this struggle, the rate of interest might rise above the limits which national prosperity allows; or whether they suppose that the law will restrain and regulate private interest, and change the relations established by the nature of things, it is certain that the rate of interest is every-where fixed by law; whence it is clear that theory and practice are at variance.

There are, however, few absolute principles in political economy, as I observed once before; they are continually modified by circumstances, and all that can be desired from an enlightened government is, that it should shorten the duration of modifications, and accelerate as much as possible the return to fixed rules and good principles.

But though he opposes a legal rate of interest, the author just quoted thinks it ought to be fixed by law, whenever it has not been stipulated by the contracting parties. He says: "The rate of interest must be fixed by law, whenever it adjudges interest to the creditor by way of indemnity in cases where none had been stipulated by the parties. And this rate being fixed to supply the stipulation of the parties, it follows that it ought to be according to the market-rate of interest, as being the rate which the parties



“ must be presumed to have adopted, if they had stipulated any interest.” \*

This modification of the principle which deprecates a legal rate of interest, appears neither reasonable nor well founded. If the interest be an indemnity due to the lender for his having deprived himself of the commodity which he has lent, this indemnity, when it has not been stipulated by the parties, ought, like all other indemnities, to be complete, and restore to the creditor whatever he loses by being deprived of his commodity. Should the interest be fixed by law below the market-rate of interest ; should it be legally fixed at five per cent. when it is worth six per cent., it is evident that the creditor loses one per cent., and does not receive the indemnity to which he is entitled ; the debtor is favoured and benefited by his want of good faith or punctuality.

In this case, as well as in the loan of any other object than money, the care of fixing the indemnity due to the lender, on account of his having been deprived of his commodity, must be left to the magistrate. It ought not to be regulated by law, because it exceeds the functions and is without the pale of legislation. The law ought to regulate it only when circumstances require its interference to remedy the deficiency of stipulations by the parties.

Except in those extraordinary cases, the law ought no more to fix the rate of interest, when there is no

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\* *Abrégé Elémentaire de l' Economie Politique, par le Sénateur Germain Garnier. Paris, 1796. Chap. iv. article iv. section 2, § 4.*

agreement between the parties, than it ought to restrict or limit their agreement: the principle is the same in both cases, and ought not to be differently applied.

But is the lending of capital at interest profitable or detrimental to national wealth?

When a loan takes place merely because the lender does not wish to employ his capitals himself, and the borrower applies it to pay a labour productive of a revenue, there is no doubt that this employment of capital is as profitable as if the owner himself applied it to pay a labour productive of a profit.

The difficulty is only when the loan is applied to immediate consumption without any re-production. In that case, we must distinguish between a loan to a private individual and a loan to the public.

The former cannot have any very disastrous effects, because the number of prodigals and spendthrifts is never very extensive, and their prodigalities and dissipations can have but little or no influence on the total sum of the produce of labour.

The public loan is the only one that is of importance, because it has an essential influence on the wealth and power of states.

Governments are induced to open public loans whenever the ordinary revenue is insufficient for the extraordinary expences which imperious circumstances demand. Public loans must therefore be considered as an extraordinary resource; and the only question proper to be examined in this case is, whether this resource is more or less prejudicial than any other that might be employed.

Nations have only three ways and means to provide for extraordinary expences;—to sell the national demesnes, if there be any; to levy contributions proportioned to the wants of government; and to have recourse to voluntary loans.

To sell the public demesnes would at this time yield a very feeble resource in great states, and in others it would be precarious and afford but a slow, uncertain, remote, and consequently inefficient assistance.

To raise the public contributions, and proportion them to the wants of the state, is not always practicable; they could only be levied at the expence of capital destined to maintain labour productive of a revenue; consequently they would cause its diminution, and perhaps interrupt this labour and occasion incalculable losses to re-production. Extraordinary contributions might besides experience a resistance which would augment the expences of government, obstruct its operations and paralyse its energy. And should they even not encounter any resistance or meet with any difficulty, they could not provide for immediate wants, because they could only be levied slowly and gradually; consequently extraordinary contributions would afford but a slow, uncertain, and inefficient assistance.

Public loans are free from any of these inconveniences; the want is supplied as soon as it is felt. When the capitals which they procure to the state, have no useful employment or destination, they are no-wise injurious to labour and re-production; both continue in the same state; and if they suffer any injury from this way of employing capital, it is only



in being less extended and improved. Perhaps it might even be asserted, that labour and re-production do not suffer any injury at all, and that they are extended and improved by other causes not less powerful than the impulse of capital.

The interest of the loan and the fund set apart for its re-payment, require a small increase of taxes; which necessarily proves a stimulus to more labour and greater economy; so that in this instance it may truly be affirmed, that public loans, far from injuring labour and re-production, contribute to the increase of both.

On the other hand, as public loans afford an opportunity of employing even the smallest capitals, and create as it were an income without labour, they stimulate every one to economy, and contribute indirectly to the progress of wealth.

It will no doubt be objected, and with some appearance of truth, that these private savings and increased productions being consumed fruitlessly and without any re-production, there is not a single shilling added to the wealth of the nation, and only a change of consumers effected.

But on studying the results of public loans with more attention, the futility of the objection is soon discovered.

Were the extraordinary wants which occasion public loans, permanent; and were no fund for the extinguishing of such loans in a given time, provided, along with the interest; public loans would undoubtedly consume all the productions which they cause to be produced or economized, and matters

would ultimately be in the same state as if there had been no loans.

But if the wants which such loans supply, are merely temporary ; if the productions which they caused to be produced or economized, are sufficient to provide for the interest and for a surplus to extinguish the debt ; it must be acknowledged, that after the re-payment of the capital, the contributors to the public expences are richer by all the productions produced to pay their contributions, the state-creditors, by all the savings which they have converted into shares in the public funds, and national wealth increased by both the productions produced by the contributors to the public expences, and the capitals accumulated by the state-creditors.

These results are incontestable, when public loans absorb only unemployed capitals and when the public contributions provide both for the interest of the debt and for its extinction in a given time.

The case is not exactly the same, when the capitals absorbed by public loans are abstracted from those which would have served to maintain labours productive of a revenue. The application of such capitals to an unproductive consumption must be acknowledged to be prejudicial, perhaps even fatal to the branches of labour which they supported : but this evil, considerable as it is, cannot be compared to that occasioned by excessive contributions to the public expences, which impair capitals employed in labour, restrain or paralyse its faculties, weaken the sources of re-production, and carry desolation and despair into all labouring classes. There is even this difference between the

two evils ; one is both remediless and hopeless ; the other is at least a certain resource, and affords means to abridge its own duration.

It may however be supposed, that the capitals absorbed by public loans are only abstracted from labours the least productive, the least profitable, and the loss of which is most easily borne. In the case of equal profits, capitals are preferably employed in the most productive labours, because their benefit is the safest and most lasting. Hence it necessarily follows, that public loans affect only the least valuable and least productive capitals.

Moreover, the loss resulting from the disappearance of these capitals may in some degree be repaired by a greater consumption of the produce of other branches of labour, by a greater activity, energy, and diligence, on the part of the labourers, and a greater economy in their consumption. The necessity of paying the tax imposed upon them to provide for the interest and the extinction of the public debt, must induce them to redouble their efforts for the purpose of raising the produce of their labour to the level of their new burthens.

Thus every thing induces the belief that public loans have a contrary effect to extraordinary contributions ; the latter necessarily tend to diminish the produce of labour, because they deprive labour of its means ; the former tend to increase it, by invigorating its energy : consequently, the loss which results from public loans is the least considerable and the soonest repaired.

Adam Smith has attentively weighed most of these



considerations; and yet they have not obtained his assent: but it may easily be perceived, that the motives of his hostility are but indirect attacks upon public loans, and do not prove that there exists a better mode of providing for the extraordinary expences of the state.

He asserts, that if extraordinary expences “ were always defrayed by a revenue raised within the year, wars would in general be more speedily concluded and less wantonly undertaken. The people, feeling during the continuance of war the complete burden of it, would soon grow weary of it.” \*

But this assertion is not supported by experience; war was never and no-where subordinate to the means of carrying it on; the passions which cause it to be pursued, regard neither its cost nor the calamities it inflicts. When the ordinary and extraordinary resources are exhausted, war is carried on by devastating other countries, and its calamities, far from hastening its termination, prolong its duration. It is only since public loans have provided for their expences, that wars have lost something of their intensity and asperity, that they have been shorter, and, if I may be allowed to say so, less fatal to nations. Each additional year of warfare renders every new loan more expensive, more difficult, and more ruinous. The belligerents are thus every year warned of the exhausted state of their finances; and this periodical warning forces them, though reluctantly, to think of peace, and to put an end to a war, the expences of which are ruinous, and which almost

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\* *Adam Smith's Wealth of Nations*, London, 1805. Vol. iii, book v. p. 446.

always disappoints the hopes of those by whom it is carried on.

Adam Smith objects also, that “ it is absolutely “ chimerical to suppose that national debts could “ ever be fairly and completely paid by any savings “ of the ordinary revenue.”

This objection might have had some weight in the mind of Adam Smith, because sinking funds had made little progress in his time ; their nature had not been thoroughly investigated, nor their effects appreciated ; and it was difficult to foresee the wonders they have since accomplished. It may fairly be supposed, that Adam Smith would have altered his opinion, had he known that, if after providing for the interest of a public loan, one per cent of the capital is placed at compound interest, the debt is extinguished in thirty-seven years.

This measure, the advantages of which I have set forth in another work \*, had just then been represented by the Earl of Lauderdale as pregnant with the most fatal and most disastrous effects. Unacquainted with the noble Lord's publication, I could neither weigh the arguments on which his opinion is built, nor develope the motives which induced me to adopt a contrary opinion. I must therefore now perform the task which I could not attempt at that time ; and, if I am not mistaken, the system of sinking funds will derive new lights from a controversy

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\* *Essai Politique sur le Revenue Public des Peuples de l'Antiquité, du Moyen Age, et des Siècles Modernes ; par Charles Ganilh ; in two volumes. Paris, 1806.*

undertaken for the interest of the science and the benefit of truth.

“ If fifteen millions sterling a year extraordinary,” says the noble Earl, “ were levied by the government “ from the revenue of its subjects, to defray the “ charge of warfare, or any other extraordinary expenditure ; as this money would be expended in “ articles of consumption, as fast as assumed, the “ expence of the government would effectually counteract the effects of the parsimony it renders “ necessary and creates in the subject. The only “ mischief therefore that could ensue, would arise from “ the extensive demand it must suddenly occasion “ for one class of commodities, and from the consequent abstraction of so large a portion of the revenue “ of the subjects from the acquisition of those articles “ in which it is usually expended ;—a mischief in “ itself no-wise trifling, as recent experience has “ taught.

“ Very different, however, must have been the effect of “ raising fifteen millions for the purpose of accumulation, or of forcibly converting fifteen millions of “ revenue into capital. In this, as in the former case, “ there would have ensued all the mischief occasioned “ by abstracting a portion of demand represented by “ fifteen millions a year from the commodities which “ the subjects were accustomed to acquire with this “ part of their revenue : but in this case there would “ unfortunately have existed no extraordinary expenditure to counteract the full effects of this forced “ parsimony ; for it would have been difficult to persuade the proprietors of stock, from whom such



“ extensive purchases would have been made by the  
“ commissioners of the sinking fund, all at once to  
“ spend, as revenue, that which habit had taught  
“ them to regard as capital ; or, in other words, all  
“ at once to ruin themselves in order to counteract the  
“ bad effects of this miserly policy in government.

“ Unless, however, the stock-holder could have  
“ been persuaded thus to expend his capital, fifteen  
“ millions a year less must have been expended in  
“ the different articles the country produced or  
“ manufactured ; that is, a portion of demand would  
“ at once have been withdrawn from commodities of  
“ British growth or manufacture.

“ But if it is true, (which all writers on political  
“ economy, however much they may differ on other  
“ subjects, concur in asserting,) that the whole quan-  
“ tity of industry employed to bring any commodity  
“ to the market, naturally suits itself to the effectual  
“ demand, and constantly aims at bringing the pre-  
“ cise quantity thither that is sufficient to supply the  
“ demand ; it follows, that this diminution of demand  
“ must occasion a similar diminution of the produc-  
“ tions of the country.

“ Though the opinions of great and eminent men  
“ are here referred to for establishing the position, that  
“ a diminution of demand must occasion a diminu-  
“ tion of produce, that is, of wealth ; it is not on autho-  
“ rity alone that this inference rests ; reason also  
“ shews that it must be so. It follows, therefore, that  
“ three hundred millions (calculating the value of  
“ the fifteen millions of produce which must have  
“ been annihilated, at twenty years purchase) of real

“ wealth would have been extinguished before this  
“ accumulating fund, with all its boasted activity,  
“ could have, in all probability, converted one hundred millions of the revenue into capital.

“ Dismal as the consequences of this experiment  
“ must have been in diminishing the re-production  
“ and revenue, there appear, on the other hand, no  
“ good effects likely to have resulted from it in relation to the capital of the country, to counteract its  
“ evil effects on the revenue.

“ The stockholders, who would have been tempted  
“ to sell by the offer of the commissioners of this sinking fund, would, it is evident, have had in their  
“ possession fifteen millions of capital, upon the  
“ employment of which, in such a manner as to  
“ return a profit, their income, that is, their subsistence, must have depended. To acquire a profit,  
“ we know that capital must be applied to supplant  
“ or perform a portion of labour in producing or  
“ giving form to commodities; and it is hardly possible to suppose, that there could have existed any  
“ new channels of so employing a capital, at a  
“ moment when there was forcibly created a diminution of demand for commodities to the extent of  
“ fifteen millions.

“ So far from its being reasonable to suppose there  
“ could have existed, under such circumstances, any  
“ opportunity of employing an additional quantity  
“ of capital, it is certain, that so great a diminution  
“ of demand must have thrown out of employ some  
“ of that capital which was useful in supplanting labour,  
“ in the progress of bringing to market those commo-

“dities for which there could no longer have subsisted a demand.

“The only means, therefore, those stock-holders could have had of forcing the capital in their hands into employment, must have been by offering to supplant labour at a cheaper rate than that at which it was antecedently performed. A competition would thus have arisen ; the profit of capital must have been diminished ; the interest paid for stock or money must have fallen ; and, of course, the value of fixed annuities, or government securities, must have risen ; and this must have continued progressively till capital became so abundant and its profits so diminished, that the proprietors would have been induced to remove it to other countries, where higher profits might be made : and France would inevitably have been amply supplied with capital, the want of which is the great drawback on her industry.

“Neither is it theory alone which points out these evils as the necessary result of such a measure ; for, as far as practice gives us an opportunity of judging, the accuracy of the inference is uniformly confirmed by experience.

“When Pope Innocent XI. reduced the interest of his debt from four to three per cent, and employed the sum saved to accumulate, but a short time elapsed till the new three per cent fund sold at 112. In like manner, when the interest of the national debt of England was reduced, in 1717, from six to five per cent, and the saving devoted to accumulation ; the consequence was,



“ that, in 1727, from the rise of public securities,  
“ there was an opportunity of again reducing the  
“ interest from four to three per cent, and of apply-  
“ ing an additional sum to accumulate. This of  
“ course produced another rise, and to such a degree,  
“ that the sinking fund was now grown to a great  
“ maturity, and produced annually about 1,200,000*l*.  
“ and was become almost a terror to all the individual  
“ proprietors of the public debt. The high state of  
“ credit, the low rate of interest of money, and the  
“ advanced price of all public stocks and funds above  
“ par, made the great monied companies apprehend  
“ nothing more than being obliged to receive their  
“ principal too fast; and it became almost the uni-  
“ versal consent of mankind, that one million a year  
“ was as much as the creditors of the public could  
“ bear to receive in discharge of part of their prin-  
“ cipal.”\*

Such are the arguments on which Lord Lauderdale rests his opposition to the system of paying off public debts by means of a sinking fund.

The first reflection to which the noble Earl's arguments give rise is, that they triumphantly refute the principal objection of Adam Smith against public loans. He considered the re-payment of national debts by savings from the ordinary revenue, as fanciful and impossible; while Lord Lauderdale proves not only that these savings may discharge the whole

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\* *The Earl of Lauderdale's Inquiry into the Nature and Origin of Public Wealth*, Chap. iv. page 244, and following.

national debt, but even that this payment, from being over-quick, becomes burthensome and prejudicial to the creditors of the state. If this effect of a sinking fund be correct, (and it would be difficult to contest its correctness,) Adam Smith has evidently laboured under a mistake in thinking that national debts could not be paid by means of savings from the ordinary revenue. On the contrary, it is evident that this object is completely accomplished by a sinking fund; and, in this respect, it is intitled to the praises bestowed upon it by all who know its nature and appreciate its results.

But is not this advantage of a sinking fund, which cannot be denied, counterbalanced by the most serious inconveniencies? Does it not abstract a portion of the public revenue from consumption; and does not this diminution occasion a proportionally diminished production? Does it not depreciate capitals, and force them abroad to find a better employment? Let us examine how far these doubts, raised by Lord Lauderdale, are founded.

When a country borrows one hundred millions at five per cent; and one per cent of the capital is placed at compound interest to repay it in thirty-seven years, the loan costs that country six millions a year.

One hundred millions lent by the owners of circulating capital diminish this capital by the sum which is exported and consumed abroad. With regard to that portion of the capital which is consumed by government in the country, the circulating capital suffers no diminution from this consumption. Let us therefore suppose, that the portion exported consists

of fifty millions, and that consumed at home also fifty millions; in that case the country is liable to experience a diminution of fifty millions in its circulating capital, and has no hope of recovering this sum, or part of it, but by a profitable balance of foreign trade.

The fifty millions, consumed in the country, forming an accidental and transitory increase of expence, occasion a rise in the price of all commodities; and as this rise is a clear benefit to the producers, it is probably mostly economized; and this economy helps to repair the loss experienced by the circulating capital.

There is, therefore, nothing lost, in fact, to the country, but the fifty millions consumed abroad.

The six millions, which the country has to pay for thirty-seven years, are assessed upon the whole nation; and every contributing individual pays his share either by performing more labour, or by using more economy in his consumption.

If the tax be paid by additional labour, the country not only experiences no loss, but is even enriched; because the tax is temporary, and the produce derived from more labour is durable and permanent.

If the tax be paid by more economy in the use of the existing produce, individuals suffer a temporary privation, which is more or less painful according as it falls upon comforts or necessaries: but in that case, labour and its produce remain the same, and undergo no alteration.

Of the six millions, amount of interest and sinking fund, the creditors probably consume five, or the



amount of the interest of their capital. As for the sixth million, which forms a part of their capital, they probably seek a new employment for it, which restores the interest of which the sinking fund deprived them. Such new employment is easily found, since the hundred millions, consumed by the loan, have diminished the circulating capital by that sum, and left a void in circulation. The gradual return of the extinguished debt into circulation covers part of the loss or privations suffered through the abstraction of the borrowed hundred millions, and insensibly restores the natural course of circulation.

Thus it is evident that the sinking fund, both in its principle and in its results, produces none of the fatal effects which are ascribed to it by the Earl of Lauderdale.

1. It does not abstract a part of the general revenue from consumption; neither does it diminish re-production in the same degree.

The economy which it occasions, is in proportion to the extraordinary consumption effected by the loan, as one to an hundred, or at the utmost as one to fifty: it, therefore, can neither impede nor diminish production, since it feels already a void of ninety-nine, or at least, of forty-nine millions. When the necessity to produce is as one hundred, the sinking fund, which diminishes it one hundredth part, is neither felt nor perceived.

Lord Lauderdale, and many other estimable writers, have been misled by the supposition that production in England is on a level with consumption, that the fixed capital in England is as considerable as

it ought to be, and the circulating capital proportioned to the wants of consumption and labour; and that the sums repaid by means of the sinking fund are a surplus which cannot find any employment in the country without deranging its general economy.

But I think they may be easily undeceived. Although the sinking fund is considerable in England, it is but a fifty-second, or thereabouts, of the national debt, and, consequently, returns to the circulating capital but a fifty-second part of the funds which had been abstracted from it. To render this return of a fifty-second part of the national debt to the circulating capital burthensome to the nation, the loss of the five hundred eighty millions sterling borrowed by the English government, and consequently abstracted from the circulating capital, must be supposed to have been recovered by more labour and economy; the national debt of England at this present day must be supposed to be a clear gain to the capitalists to whom it belongs, and the revenue which serves to pay its interest and to accumulate for the extinction of the debt, must be supposed to become absolutely free or unnecessary when the national debt is paid. Such an increase of wealth in the short space of less than a century, would be an inconceivable phenomenon and beyond all belief. In vain it is urged that, in spite of the loans and the enormous capitals which they have abstracted from the circulation of the country, the circulating capital is adequate to all the branches of labour and to all the wants of circulation; which would not be the case, if the capitals consumed by the loans had not been re-produced by labour and

economy.—This fact, which appears conclusive and decisive, is however but specious and delusive.

When England opened her first loans, she gave to those who lent her their money a credit in the great book, which guaranteed their claims as creditors. This credit in the book certainly did not re-pay the money that had been lent ; England always continued debtor to its amount. She never began to pay her creditors but when she created a sinking fund, and she has liberated herself only as far as she has been allowed to do so by this fund.

Had things continued in this state, it would be obvious to any one, that having by her loans consumed five-hundred eighty millions sterling of the circulating capital, and re-imbursed only as much as the sinking fund has allowed her to re-pay, there must be in the circulating capital a deficiency paramount to the national debt: excepting however the ameliorations which that capital has gained from labour and economy.

How then can it be supposed, that there is no void in the circulating capital, that the consumption of the five-hundred eighty millions sterling which constituted part of it has been repaired, and that an augmentation of this circulating capital would be burthensome to the country ? This is one of the greatest mysteries of political economy and of the science of circulation.

The written acknowledgment given by the state to every one of its creditors has replaced the circulating capital absorbed by the loans. Every bearer of such an acknowledgment offered it in case of need, as he would have offered that part of the circulating capital



with which he had parted, to lend it to the state; and this acknowledgment every-where obtained the same value. Thus an acknowledgment, containing the very proof of part of the circulating capital having been consumed, was every-where received, like any other actual part of the circulating capital, or as if it had represented a still existing circulating capital. This appears inconceivable, and yet it is so.

To increase the delusion, the Bank provided the money for these acknowledgments, and, by throwing them in small shares or into general circulation, it has altered their nature even to the most clear-sighted eye. The present circulating capital of England is thus composed in part of her national debt, that is to say, of the acknowledgments which attest the actual consumption of part of the circulating capital. This is so true, that if it were possible for the English government to re-imburse the whole of the national debt, and receive from the hands of its creditors the acknowledgments which it has given them; if the public creditors in their turn paid their creditors and withdrew their notes; if, in short, a general and complete liquidation took place of the public and private debts in England, the circulating capital would only be altered in its nature, without being increased by one farthing. Instead of the public and private paper of which that circulating capital consists, it would contain its real value, and nothing more. There would be no alteration in its quantity, and consequently circulation would continue in its habitual state.

Hence it follows, that as the sinking fund effects only in fifty-two years what I have just supposed to

be effected in an instant, nothing can result from it but a gradual and successive diminution of the acknowledgments of the public debt, a return to the circulating capital of the funds that had been abstracted from it, and the re-establishment of circulation in real and effective values.

To say that the sinking fund increases the circulating capital at the expence of consumption and re-production, is tantamount to supposing that the circulating capital consists only of real values, and that the acknowledgments of the national debt do not form any part of it ; which supposition is altogether inadmissible ; or it is like maintaining that a private individual, who is re-paid what had been borrowed of him, is twice as rich as he was before this re-payment ; it betrays, in short, the most complete ignorance concerning the nature of loans, of a sinking fund, and of circulation.

2. The assertion, that extinction of the public debt by a sinking fund depreciates capitals and forces them abroad, is equally incorrect.

The circulating capital continues the same before and after the extinction of the debt : the difference is only in the objects of which the circulating capital consists. Before the extinction it consisted of paper, which after the extinction is replaced by the same sum in metallic currency. The circulating capital receives no increase ; and hence it is difficult to understand how it can be depreciated, and have more or less value than it had before the paper was converted into a metallic currency.

But might it not be objected, that since the acknowledgments of the debt are sufficient for circulation,

and fill precisely the place of the values of which they are the mortgage, it is useless to redeem them and to collect for that purpose from the individual members of the nation values which would have been productive in their hands, and which, in the hands of the creditors of the state, produce only what the claim which they extinguish would have produced ?

Could national debts keep their value without the aid of a sinking fund, the accumulation of such a fund might undoubtedly prove detrimental to public and private wealth ; for, however advantageous a capital placed at compound interest may appear, it only extinguishes a debt which costs six per cent., while the capital applied to this extinction, if it had been left in the hands of the husbandman, the manufacturer and merchant, would have produced at least ten or twelve per cent. A sinking fund would therefore be a real loss to public and private wealth, if it could be dispensed with.

But can a public debt keep its full value without a sinking fund, particularly when it forms a fifth of the circulating capital of a country ? This is a problem which experience has long ago solved. Let the debt of those nations that neglected to prop it by a sinking fund be compared with the debt of those countries which devoted a sinking fund to it ; and it will easily be seen, that national debts have only ceased to be injurious, since they have been supported by a sinking fund ; that to this fund they are indebted for the solidity and stability which are their safeguard, and which have entitled them to be the thermometer and regulator of all other values.



Thus, in whatever way Lord Lauderdale's criticism of the sinking fund be viewed, it appears to rest on erroneous notions, contrary to the true principles and essence of a sinking fund.

Finally, it has been observed by Adam Smith, that "the practice of funding has gradually enfeebled every state which has adopted it; and he adduces as instances Genoa and Venice, which seem to have begun it; Spain, which seems to have learned the practice from the Italian republics; and France, the United Provinces, and England, which followed the example."\*

I may at least be allowed to doubt both the decline of most of these nations and the cause to which this decline is ascribed by Adam Smith. Were it necessary, it would be easy to prove that the wealth of these nations grew progressively with the system of public loans, particularly since it has been perfected by a sinking fund; and indeed it could not be otherwise. A nation cannot borrow, unless it is growing rich; its loans cease as soon as it gets poor. It is therefore unreasonable to impute the decline of a nation and the decay of its power to the system of public loans. The causes of their fall must be sought for in other circumstances; and were it either useful or proper to point out those which may have contributed to the decline of Genoa, Venice, Spain, and the United Provinces, they would be discovered in the ruinous wars which these states maintained, for such a length

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\* Adam Smith's *Wealth of Nations*; London, 1805; vol. iii. book v. chap. 3, page 450.

of time, against more powerful nations. The system of public loans, far from aggravating the distress of their situation, enabled them, on the contrary, to oppose a protracted and courageous resistance, while every other means would have hastened the decay and ruin of their power. As for France, and England in particular, if their prosperity has been maintained, if it has made immense progress in spite of the calamitous wars to which they have been a prey, they are indebted for this advantage to the system of public loans, the least distressing, I had almost said, the most advantageous way of providing for the incalculable wants of war.

Thus every thing concurs to demonstrate, that even under a supposition the most unfavourable to public loans, when they abstract capitals from productive labour to make it serve to an unproductive consumption, they are still preferable to excessive taxes which impair every capital and exhaust the powers of labour.

If, from the formation of capitals and their employment in divers branches of labour and public loans, we pass to their influence upon wealth, new considerations crowd in the mind, the science expands its views, and is enriched with new results.

## CHAP. IV.

*Of the influence of Capitals on the progress of Public Wealth.*

DR. Quesnay and Adam Smith are perfectly agreed about the importance of capitals and their share in the progress and growth of wealth.

The former teaches, that “ the prosperity of an agricultural country consists in great advances to perpetuate and augment the national revenue and taxes.”\*

Adam Smith says, that “ the previous accumulation of capital stock is necessary to the great development of the productiveness of labour; that it necessarily precedes the division of labour; that the progressive subdivision of labour itself is in proportion to the previous augmentation of the capital stock which has been gradually accumulated; and that industry increases in proportion to the accumulation of capital stock, which puts it into motion.”†

But while they acknowledge the powerful influence of capital, both authors think this influence is not equal in every employment of capital, or that all modes of employing capital are not equally beneficial to the wealth of the nation by which it is employed.

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\* *Physiocratie*, page 296.

† *Adam Smith's Wealth of Nations*, vol. i. Introduction.



Constantly prepossessed in favour of the agricultural system, Dr. Quesnay considers the employment of capital useful only as far as it is applied to agriculture.

Adam Smith admits likewise, that “ the quantity of productive labour which equal capitals are capable of putting into motion, varies extremely according to the diversity of their employment ; as does likewise the value which that employment adds to the annual produce of the land and labour.”\*

We recognize in these two theories the difference of the systems adopted by these two authors ; it is a restatement of their opinion respecting the sources of wealth and the nature of labour. I shall not go over this ground again, nor shall I endeavour to prove that what I have stated with regard to labour applies alike to the capital stock which puts it into motion and of which it is but, as it were, the agent and tool ; it would betray me into useless and tedious repetitions.

But independently of the opposition which prevails, and must prevail, between these two authors, Adam Smith has set up a particular doctrine to determine the degrees of utility of capital employed in the different ramifications of productive labour. This doctrine is too important to pass it over in silence ; it behoves us to examine and appreciate it, if possible.

Adam Smith asserts, that “ capitals of equal value will put into motion very different quantities of productive

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\* *Adam Smith's Wealth of Nations* ; London, 1805 : vol. ii. book ii. chap. 5, pages 48, 49.

labour, and augment in very different proportions the value of the annual produce of the land and labour of the society to which they belong, according as they are employed either in procuring the rude produce annually required for the use and consumption of the society; in manufacturing and preparing that rude produce for immediate use and consumption; in transporting either the rude or manufactured produce from the places where they abound to those where they are wanted; or, lastly, in dividing particular portions of either into such small parcels as suit the occasional demands of those who want them."

Accordingly, he teaches that "no equal capital puts into motion a greater quantity of productive labour than that of the farmer, because *nature performs seldom less than a fourth, and frequently more than a third, of the labour*; and no equal quantity of productive labour employed in manufactures can ever occasion so great a production."

Next to the capital of the farmer, Adam Smith ranks that of the manufacturer, "who augments the value of the raw materials he employs by the wages of his different workmen, and by his own profits upon the whole stock of wages, materials, and instruments of trade employed in the business."

To the capital of the wholesale-merchant he assigns the last rank, because "*it augments the price of his goods merely by the value of his profits, and the wages of the sailors and carriers who transport his goods from one place to another.*"

The difference too he states to be very great,

according to the different sorts of wholesale-trade in which any part of the capital is employed, which he reduces to three.

“ The capital employed in the home-trade is the most lucrative, because its returns come in three or four times in the year; which multiply three or four times the sum of national labour.

“ The capital employed in the foreign trade of consumption, is less productive than that employed in the home-trade, because its profits are shared between the native merchant and the foreign one.

“ Lastly, the capital employed in the carrying trade is the least productive of all, because it is altogether withdrawn from supporting the productive labour of the country to support that of some foreign countries.”\*

This theory, it must be acknowledged, is ingenious and captivating; it does honour to the sagacity of its author: but is it not in reality more brilliant than solid? Is it not a merely ideal and perfectly fanciful abstraction? And would it not frequently be fatal and almost always dangerous, to put it into practice?

To obtain correct notions in this respect, we must descend from the speculative and often fascinating heights of theory, and convince ourselves of its truth or fallacy by an attentive examination of the different cases to which it may apply. We must know whether it is in all situations, or only in some particular situations, that the employment of capital in agriculture is the most proper to enrich a nation, or whether any

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\* *Adam Smith's Wealth of Nations*, book ii. chap. 5.



other employment is more or less favourable to wealth. In short, we must follow capitals in their progress, ascertain their effects, and determine in some degree their absolute and relative power. This examination will either unveil the error, or confirm the accuracy, of the fascinating doctrine of Adam Smith.

If a nation possessed of a territory of large extent, great fertility, and fit to be cultivated, had large capitals, and employed them chiefly in agriculture; that nation would undoubtedly obtain a very considerable agricultural produce: but this produce, whatever might be its magnitude, would not of itself constitute any real and effective wealth; it would be wealth only when it had the power of obtaining in exchange all the other objects which the cultivators of the soil might be in want of, or which might suit their convenience. That part of produce which they could neither consume nor exchange, would be without any value, and as if it did not exist. A country possessed of none but such wealth, would be completely wretched. If agricultural produce is to constitute wealth, it is absolutely necessary that it may easily be exchanged against equivalents.

But where are we to look for, where to find these equivalents, which alone can give it a value, and raise it to the rank of wealth?

Is it in the interior of the country, where the agricultural produce has been gathered? The attempt will prove abortive, if manufactures and commerce have not made a progress similar to that of agriculture; if the manufacturing and trading classes are inconsiderable in number, and not sufficiently rich to give

equivalents in exchange for the agricultural produce offered to them.

“ The extent of the home-market, for corn,” says Adam Smith, “ must be in proportion to the general industry of the country where it grows.” \*

If this maxim be correct; how can the employment of capital in agriculture be the most profitable, the best calculated to enrich the society to which it belongs? How can the manufacturing and trading classes, when deprived of the capitals reserved for agriculture, rise and prosper so as to give any value to the produce of the agricultural class? And without this value, what will become of the agricultural produce?

The nations of ancient and feudal times employed their capitals exclusively in agriculture, and yet they never arrived at wealth; or at least their wealth was confined to the hands of a few individuals, and did not circulate in the nation. The agricultural produce, however abundant for each land-owner, created neither commerce nor manufactures. Every rich and powerful individual had in his house slaves whose labour supplied his wants; and having nothing to ask of his fellow-citizens, he had nothing to offer them. Whenever his wealth became excessive, he imagined no other way of using or employing it than to erect public monuments, and to entertain the people with sumptuous feasts, or to surround himself with a numerous train of courtiers, flatterers, and valets; so that it

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\* *Adam Smith; Wealth of Nations; London, 1805, vol. ii, book iv. chap. 5, page 321.*

was consumed without any re-production, and without any advantage to national wealth and population.

Such was the effect of the employment of capital in agriculture.

Prejudicial as it was to the nations of antiquity and of the middle age, it would yet prove much more fatal to modern nations. It then produced at least private wealth, because agriculture was entrusted to slaves and bond-men, whom fear condemned to labour: but at present it would not even produce private wealth. Not finding any vent for the surplus of their produce, the agricultural classes would only labour up to their wants, and all means of attaining wealth and prosperity would vanish for ever \*.

Will it be said, that the agricultural country may sell her produce abroad ?

But if other countries also employed their capitals in agriculture, if they too neglected manufactures and commerce, her hopes would be disappointed and her

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\* In our modern states, lands are unequally distributed. They yield more produce than those by whom they are cultivated can consume; and if arts be neglected, and agriculture alone practised, the country cannot be peopled. Those who till, or cause the ground to be tilled, having a surplus of produce, nothing stimulates them to labour the following year; neither is the produce consumed by the idle, because the idle have not wherewith to purchase it. Arts must therefore be introduced, that the produce may be consumed by artists and workmen. In short, it is necessary, in modern states, that many should raise agricultural produce beyond what they want. For this purpose, a wish must be excited in them to possess superfluities; and these are afforded only by artisans. *Montesquieu, Esprit des Loix, Liv. lxiii. chap. 16.*



produce without value. Were some nations even less favourably situated for agriculture, or blind enough to apply their capital to manufactures ; if navigation had no-where made a progress proportioned to that of agriculture, (which would infallibly be the case, if the employment of capital in agriculture were the most beneficial ;) there would be no vent for the surplus of agricultural produce, and consequently all superfluous re-production would be at an end.

Adam Smith was no doubt aware of these results, when he said that “ the agricultural system can enrich a country only by rearing artisans, merchants, and manufacturers ; and that this can only be accomplished by giving the utmost liberty to commerce and manufactures.”

But he also was so sensible of the insufficiency of these means, that he says, “ *the agricultural system discourages, in the end, the very industry which it ought to favour.*”

If the agricultural system can enrich a country only by creating industry and commerce, and if, *instead of favouring, it discourages them* ; it is self-evident that this system never can in any case enrich a country, and consequently no country can, without prejudice to her interests, employ her capitals in agriculture.

Will it be said, that the surplus of capitals which cannot be employed in agriculture, is applied to manufactures and commerce, and that this employment, by causing the latter to prosper, confers upon the agricultural produce a value and power which it had not of itself?

The consequence may at least be doubted ; it is much more probable, that being incited to labour by their wants, the agricultural classes will only rear as much produce as is sufficient to supply these wants, and never will have a surplus to devote to the establishment and maintenance of manufactures and commerce.

But admitting that there is a surplus of agricultural produce which, by its new employment, might create manufactures and commerce ; if this surplus, by creating manufactures and commerce, is the true cause of the wealth of the agricultural classes, it must be acknowledged that the most useful employment of capital is not that which supports agriculture, but that which supports manufactures and commerce.

And let it not be supposed, that if the employment of capital in agriculture be not the most useful in the infancy of wealth and capitals, it is more beneficial when wealth has reached a certain pitch, and capitals are abundant and nearly sufficient for the support of every branch of labour. The influence of capitals employed in agriculture upon public prosperity even then can only be proportioned to the success of the capitals employed in manufactures and commerce. Even then agriculture can prosper only through the prosperity of manufactures and commerce. How can the employment of capital in agriculture be the most useful and most profitable, when its utility is dependent on the utility of the capitals employed in manufactures and commerce ; when the nation to whom these different capitals belong, can expect wealth only from manufactures and commerce, which enrich agriculture and render it productive ?

It appears to me fully demonstrated, that in this first supposition, in the case of an agricultural country with an extensive territory, the employment of capital in agriculture is not the most advantageous, and cannot lead to wealth: a nation can only grow wealthy, as has also been remarked by Adam Smith, *by some great manufacture destined to answer the demands of foreign countries.*

But would not the case be different with regard to a people whom nature or fate has cast on some barren shore or deep marsh-land, whence the sea has receded, but which it still threatens every moment with a fresh incursion ?

In this case, I think again, that to propose to such a people to employ their capitals in agriculture would be condemning them to eternal misery.

If, on the contrary, they apply their savings to manufactures, commerce, and navigation; this employment opens inexhaustible sources of wealth, which, pouring in from abroad, are concentrated in the country, and render barrenness itself productive. Of this, both ancient and modern history afford numerous and striking examples.

Tyre, Athens, Carthage, Constantinople, Venice, Genoa, and Holland, rose to wealth and power by employing their capitals in industry and commerce; and, what is equally remarkable, history does not offer a single nation that, by the exclusive employment of capitals in agriculture, accumulated with so little means and resources such extensive wealth, enjoyed so great a consideration, and attained such an eminent degree of power and grandeur. How then is it



possible to compare, and even to prefer, the employment of capital in agriculture to its employment in manufactures and commerce?

Adam Smith again furnishes us with an argument conclusive against his system, and all in favour of manufactures and commerce.

He acknowledges, that "the first improvements of art and industry must have been made on the sea-coast and along the banks of navigable rivers, where the conveniency of water carriage opens the whole world for a market to the produce of every sort of labour."\*

How has it happened, that a truth so pregnant with consequences did not wean him from the system he adopted? How was it that he did not perceive, that if industry and commerce owed their first progress to causes unconnected with agriculture, if they prosper by themselves and independently of agricultural wealth, nothing can hinder capitals, thus employed, from enriching the people to whom they belong, as well as capitals employed in agriculture? The fact cannot be denied. Although Adam Smith laid the foundations of the mercantile system, he yet could not detach himself from the impression which agricultural ideas had made on his mind. Though he attached great importance to manufactures and commerce, he yet considered them simply as the instruments, agents, and distributors of agricultural wealth. He constantly kept very close to the system

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\* Adam Smith's *Wealth of Nations*, London, 1805, vol. 1. book i. chap. 3, page 31.

of the French economists which he had combated; and in the end gave it the preference over the system he had created.

But he has himself provided us with the means of avoiding the error into which he fell, by the very lights which he disseminated and neglected.

Why should capitals employed in agriculture be more advantageous to a nation than capitals employed in manufactures and commerce? It is, says he, because in this kind of labour nature does a third or a fourth of the work, and, consequently, economizes a third or a fourth of the capitals.

But the produce of labour, according to his own principles, is not valued by what it has cost, nor by its use, but by its value in exchange: of course it matters little, whether the agricultural produce costs more or less to be raised, if it has not a greater value or even less value in exchange. A quarter of wheat, though it cost less to produce than a large looking-glass, and though its value in use be far superior to that of a mirror, may, however, have no value at all, if no one wants it; while a mirror may have a very great value, if desired by many individuals. It is, therefore, neither this nor that particular produce which constitutes wealth; it is the exchangeable value of all produce, and the capitals which confer the greatest exchangeable value upon the produce of a country are the most useful and most favourable to the wealth of that country. Capitals employed in manufactures and commerce are eminently possessed of that faculty, because they afford the produce most in request, and find consumers and commodities in

exchange for it in every part of the globe. The nation which employs its capitals in manufactures and commerce is therefore evidently nearer the source of wealth, than the nation which employs them in agriculture, and which, under the most favourable supposition, can, after all, derive no wealth but from the prosperity of manufactures and commerce.

And what ought particularly to recommend this system to every friend of humanity and social happiness, is this : while the agricultural system, according to Adam Smith himself, always tends ultimately to discourage manufactures and commerce, through which alone it can prosper ; it is in the very nature of the mercantile system to encourage agriculture, to develope its powers, and to carry it to the highest degree of improvement of which it is susceptible. The characteristic of the mercantile system is every where to stimulate labour, to accumulate its produce, and to increase wealth. The greater the wealth of the country, the more it prospers ; it increases by the very increase which it affords to public wealth. The capitals which commerce employs must therefore be the most beneficial, not only to the wealth of one nation, but even to universal wealth. The mercantile system is as preferable to the agricultural system with regard to the employment of capital, as with regard to the nature and effects of labour. If it be advantageous for mankind to prefer the labours of industry and commerce to those of agriculture, it is equally advantageous for them to employ their savings and capitals in the same way. The greater their progress in manufactures and commerce, the



nearer will they be to wealth, and their wealth will be so much the larger, the more capitals they have employed in manufactures and commerce.

This result of facts and reason is also that of the human instinct, of the propensity of man to exchange commodities, and of his fondness for all those enjoyments which can be had only by means of such exchanges.

Adam Smith is of opinion, that, "had not social institutions deranged the order of things, the wealth and aggrandizement of towns would in every civilized society have advanced with equal steps with the improvements of the agriculture of the country."

I think, on the contrary, that if social institutions had seconded, or, at least, not thrown any obstacle in the way of, the developement of human faculties, these faculties would have been turned to those labours, the produce of which is most sought for, and which afford most objects of exchange: and as manufactures and commerce are eminently possessed of this privilege, the mercantile would, every where, have been preferred to the agricultural system. The least industrious and skilful would alone have continued attached to the rude and less productive labours of agriculture.

And in spite of those social institutions which oppose the developement of industry and commerce, is it not still to manufactures, commerce, and the arts, that the most industrious, the most ingenious individuals, those whom nature and education have endowed with most talents and faculties, devote themselves? And is not agriculture the lot of men the

least endowed by nature, and the least disposed to occupations which require dexterity and talents ?

This general tendency of men to industry and commerce renders it impossible to be blind to their advantages ; and it is without any foundation, that Adam Smith asserted that capitals employed in agriculture are more favourable to national wealth, than those employed in manufactures and commerce. The most profitable capitals are not those which put most labour, but the most useful labour, into motion ; not those which employ most, but the most skilful individuals ; not those which yield the largest, but the most valuable produce. The most profitable capitals are, consequently, those employed in manufactures and commerce.

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## CHAP. V.

### *Of the Profit of Stock.*

ADAM Smith is the first and only writer on political economy, who discovered the laws which regulate the rent of capitals or profit of stock ; and his theory has not met with any criticism, nor does it appear susceptible of being criticized.

He observes, first, that the profit of capital stock employed in any private business, is so very fluctuating, that the person who carries on a particular trade, cannot always tell himself what is the average

of his annual profit. It varies not only from year to year, but from day to day, and almost from hour to hour. To ascertain what is the average profit of all the different trades carried on in a great kingdom, must therefore be much more difficult.

The only rule which can direct us in this difficult and complicated research, is the rate of the interest of money in a given country, and at a given time. According as the usual market-rate of interest varies in any country, we may be assured that the ordinary profits of stock must vary with it, must sink as it sinks, and rise as it rises; whence Adam Smith draws various consequences relative to the progress of wealth in France, England, Holland, and Mexico\*.

But this rule is liable to several exceptions, which render its application extremely doubtful and uncertain. According as circumstances augment or diminish capitals, or bad laws derange the monetary system of a country, the profits of stock may be more considerable than they ought to be. Certain it is, in general, that the profits of stock decrease in proportion to the increase of wealth, and augment in proportion to its decline. When a country possesses the sum of capitals which it wants, the profits of stock are very low.

Such is the doctrine of Adam Smith on this part of political economy. Though it does not afford much positive information, and is confined to mere conjectures, it yet furnishes us with one corollary worthy to be treasured up; namely, that the operations of governments, when not conducted with proper know-

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\* *Adam Smith's Wealth of Nations*, vol. i, book i. chap. 9.



ledge and prudence, may have the most distressing influence on the individual, social, and foreign relations of a country.

If government, by any political, legislative, or administrative regulation, deranges the natural rate of the interest of money, the private interest of all suffers; the land-owner is sacrificed to the capitalist, or the capitalist to the land-owner; agricultural, manufacturing, and commercial undertakings are carried on beyond, or stop short of their means; and in both cases labour is a sufferer, and wealth declines.

On the other hand, if government do not avail itself of the new methods which the science of capital has introduced in other countries, the nation over which it rules, labours with equal capitals under an unavoidable disadvantage in its dealings with other nations, and for a great length of time contributes unknowingly to enrich them at his own expence.

The employment of capital is, beyond contradiction, one of the most difficult branches of the science of public administration; it is that which deserves the greatest attention, and on which depends the progress or the decay of public prosperity.

## CHAP. VI.

*Conclusion of the Third Book.*

CAPITALS consist in the accumulation of the produce of labour. This accumulation is effected by economy in consumption. In proportion as this accumulation takes place, capitals divide and follow various destinations. Some are destined to produce a revenue, and are called fixed capitals: others are destined to maintain labourers and to furnish the materials of labour; these are called circulating capitals; others, lastly, are destined to be lent out at interest in public or private loans, and constitute a part of the circulating capital.

Of all these employments of capital, the most useful, the best calculated to enrich even an agricultural country, to increase its wealth, and to raise it to the highest degree of prosperity which it can attain, is that which is applied to manufactures and commerce, which gives motion and life to the mercantile system, and seconds its efforts, its combinations, and its speculations. But the more this employment is favourable to the progress of public wealth, the less is its utility to private wealth; and the more it is productive of private wealth, the less it is beneficial to public wealth.

Governments, however, ought not to suppose that it is in their power to put an end to this opposition of

interest. It is grounded in the nature of things : whatever governments may do, capitals always have a great value wherever national wealth declines, and they constantly lose their value in proportion to the increase of public wealth. All attempts to stem this irresistible tendency will ever prove unavailing ; and the remedy will always be worse than the evil. The best thing enlightened and prudent governments can do under such circumstances, is to remove the accidental causes which may hasten the decline or impede the progress of national wealth. Their power goes no further. Above all, they ought never to forget that an error on this subject is much more fatal than in taxation, to which they give such serious attention. An error in taxation produces but partial evils, private misfortunes, and local inconveniencies. But an error in matters concerning capitals affects the faculties of the community, attacks the principle of life in the body-politic, and paralyses the whole. May this important consideration enforce the utmost caution, and teach governments, that it is not always enough to wish to do good, that they ought also to know how good is to be effected, and that, in the present state of political economy with regard to capitals, the wisest administration is that which commits the fewest mistakes.



## BOOK IV.

OF THE VARIOUS SYSTEMS RELATING TO THE  
CIRCULATION OF THE PRODUCE OF LABOUR  
BY MEANS OF COMMERCE.

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## INTRODUCTION.

IF man be indebted for his subsistence to labour ; if it be to the accumulation of capital as the sole means of abridging, facilitating, and improving labour, that he owes his opulence and comforts ; it is only through the circulation of the produce of labour by means of commerce, that nations attain wealth, splendour, and power.

“ Trade,” says D’Avenant, “ is the living fountain whence we draw all our nourishment. It disperses that blood and spirits through all the members by which the body-politic subsists. The price of lands, value of rents, and our commodities and manufactures, rise and fall as it goes well or ill with our foreign trade.” \*

“ The greatness of a state,” says David Hume, “ and the happiness of its subjects, how independent soever they may be supposed in some respects, are

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\* *Essay on Ways and Means*, vol. i. page 16.

commonly allowed to be inseparable with regard to commerce; and as private men receive greater security, in the possession of their trade and riches, from the power of the public; so the public becomes powerful in proportion to the opulence and extensive commerce of private men." \*

"Like sale, like production;" says Dr. Quesnay †. "That commerce is necessary," says Galiani, "for the support of life and the happiness of nations, is well known. Commerce owes its rise to the necessity of exchanging the surplus of our commodities for those we stand in need of, and may be defined, the interchange of the produce of general labour to provide for the wants of all. In the wretched state of nature, every one thinks only of himself: but commerce leads to social life, in which every one thinks and labours for all, not from a principle of piety and virtue, but from interest and utility. ‡"

"The end of social economy," says Genovesi, "is, 1st, an increased population; 2dly, wealth; 3dly, natural and civil happiness; 4thly, the grandeur, glory, and welfare of the sovereign,

"Of all the means capable of attaining this end, there is not one more efficient than commerce, which avails itself of human avidity, as the most powerful promoter of all social advantages." §

\* *Hume's Essays*, Edinb. 1804, vol. i. Essay on Commerce, page 271.

† *Physiocratic*, Max. 16.

‡ *Della Moneta*.

§ *Lezioni di Econom. Civile*, part i. chap. 16.

“As it is the power of exchanging,” says Adam Smith, “that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market.” \*

There is, therefore, no doubt remaining concerning the extreme importance of commerce or the circulation of the produce of labour, nor respecting its intimate connection with individual wealth and national power. All writers on political economy are unanimous in this respect; there is not any one point more firmly established.

But with regard to the principle, nature, progress, method, different modes, and numerous effects of this productive and beneficial circulation, opinions vary, systems differ, and the science fluctuates between a number of contradictory theories.

The origin of commerce is sought for by some in the avarice of mankind †; by others in their propensity to truck, barter, and exchange one thing for another ‡; and by others, in their vanity §.

Nor are authors better agreed concerning the laws which determine the respective value of the produce exchanged by commerce. Some make it depend upon a fixed and invariable standard; others derive it

\* *Wealth of Nations*, London, 1805, vol. i. book i. chap. 3, page 27.

† *Physiocratie*, Obs. 6.

‡ *Wealth of Nations*, by Adam Smith, 1805, vol. i. book i. chap. 2, page 21.

§ *Principes d'Economie Politique*, par Canard, page 85.



exclusively from the proportion of the demand, or the proportion of the abundance or scarcity of the produce; and all vary concerning the conduct to be observed in case the proportion should be unfavourable. Some pretend that commerce is no-wise injured by an unfavourable balance, as it always offers some advantages; others, on the contrary, think that commerce in that case ought to be shackled, restricted, and even entirely suppressed.

The same uncertainty prevails concerning the influence of money and credit upon commerce; their nature, and the principles by which they are guided; the institutions which are favourable or prejudicial to them; and the causes which obstruct or paralyse their effects.

Nor is there more unanimity respecting the question: which is the most useful and most profitable commerce? Some authors think that the inland trade is the most beneficial; but the greatest number regard foreign trade as the only profitable commerce.

The controversy, in fine, has extended to the different modes of trading. Almost all nations have adopted corporate bodies, privileged companies, colonies, and treaties of commerce, as the most advantageous mode; and almost all authors have unanimously condemned these different modes as pernicious and prejudicial to commerce.

Amidst this variety of systems upon each ramification of this part of political economy, to which theory is the preference to be given as the most profitable to wealth? This is the subject which we intend to discuss in this book.

## CHAP. I.

*Of the Causes of the Circulation of the Produce of Labour.*

WHETHER the circulation of the produce of labour owes its origin to the desire to sell at high prices and purchase cheap, or to the propensity to truck and barter, or to the emulation and eagerness to excel, is of little importance. Be its source love of novelty, avarice, or vanity, the result is the same. No one parts with the produce of his labour, and puts it into circulation, but in the expectation that it will procure him more food, or greater conveniencies, comforts, and enjoyments; and every one labours so much the harder, as his hopes are but seldom disappointed. Hence, the farther circulation extends, or the larger the market and the more that market offers varied productions and new enjoyments, the more does labour increase in intensity and activity, the more is its produce multiplied, and the more is public and private wealth enlarged and augmented.

But is this propensity of mankind to enjoyment the work of nature or of commerce? is it innate, or does it owe its existence merely to the attractions of commerce?

Dr. Quesnay says, that “ prices and commerce are not owing to merchants : on the contrary, it is the pos-

sibility of commerce and prices which gives birth to merchants."\*

But what was commerce before the existence of merchants, and how is the possibility of trade and prices to be conceived at a time when there was nothing to be bought or sold ?

Before the existence of merchants, exchanges were as unprofitable to individuals as useless to wealth. They rarely extended beyond the limits of any particular place ; and, confined within such narrow bounds, they had none of those attributes of circulation, which accelerate its motion and diffuse its benefits among all producers and consumers. The assertion therefore is strictly true, that at that time neither prices nor commerce were possible.

It was only when individuals undertook to export and import the produce of the soil and industry from one place to the other, and when they substituted exchanges to barter and sales to exchanges, that circulation actually commenced, that prices were formed, and commerce began to exist. This circulation was extended, developed, and increased in proportion as merchants multiplied in boroughs, towns, and cities ; as they corresponded with each other, and invited individuals and nations to partake of the gifts which nature and labour have diffused in all countries and all climes. Commerce reached the highest degree of intensity, when the genius of the arts launched it on the vast expanse of the seas, guided it across inhospitable

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\* *Physiocratic*, Obs. 6. and the note of Max. 9.



table deserts, and helped it to overcome the obstacles which nature and men opposed to its progress.

Thus the sources of the circulation of the produce of labour may be traced in the passion for enjoyment, in the efforts of commerce, and in the genius of the arts. To their combined action commerce owes its impulse, its progress, and its success ; and it will be seen in the following chapters, that it cannot pass the point which it has reached, unless these sources be further developed and improved.

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## CHAP. II.

### *Of the Value of the Produce of Labour.*

WHEN men first wished to exchange the produce of their labour, either directly or indirectly, by means of merchants, they must have experienced a considerable difficulty in fixing its reciprocal value ; and it is not easy to conceive how the difficulty was conquered. Perhaps, as they exchanged only objects of no value to the exchanger, they did not attach much importance to the matter, and every one was satisfied with receiving an useful commodity for an object of no value to himself.

But when the division of labour, says Adam Smith, had converted every man as it were into a merchant, and society itself grew to be what is properly called a commercial society \*, no one was inclined to part

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\* *Wealth of Nations*, vol. i. book i. chap. 4.

with his produce but for an equivalent. To fix this equivalent, it was necessary to know the value of what was given and what was received ; and it must be confessed, that the difficulty of hitting upon the means of doing so must have been very considerable.

Dr. Quesnay pretends, that “ the wants of the consumers, and their means of supplying them, originally determine the price of productions at their first sale.”\*

No doubt, this was the way resorted to at first in every exchange. It may reasonably be supposed, that every one who carried the surplus of his produce to market, must have ascertained its value from the number or quantity of other commodities he was offered in exchange.

But this must have ceased, when produce was no longer materially measured one by the other ; when the equivalent was a generally preferred produce ; and particularly when credit rendered even the actual conveyance of this preferred produce unnecessary.

Mankind must then have felt the want of a standard to judge of the relative value of any production compared to the preferred produce, and to ascertain how far the exchange provided every producer with a just equivalent. This standard of value has been the object of the inquiries of all who have written on subjects connected with political economy : “ but,” as has been justly observed by the ingenious Galiani, “ men have successfully discovered an immutable measure of time, space, and motion, the three great measures of

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\* *Physiocratic*, Obs. 6.

every thing: but the price of things, that is to say their proportion with our wants, is yet without any fixed measure.”\*

Most of the French, English, and Italian writers are of opinion, that things have no other value than what is fixed by the demand for them, and their abundance or scarcity.

“ Among a trading people,” says the celebrated Genovesi, “ the words *price*, *worth*, *value*, are relative and not absolute expressions.—Things have no price or value but relatively to man; wherever there are no men, there are no values. But man assigns no value to things, but as he wants them, consequently, the value of things is only proportioned to their power of supplying our wants.”†

“ The sole capability of being exchanged, combined with the greater or smaller natural abundance of things, and with a more or less ardent desire to be possessed of them,” says another Italian author, “ forms the basis of what mankind denominate value.”‡

“ The price of things,” says *Count Verri*, “ is composed of two elements, — their utility and their scarcity.”§

“ The value of things,” says *Condillac*, “ is grounded upon their utility, or, what is the same, upon the need in which we stand of them, or, what is again the same,

\* *Della Moneta.*

† *Lezioni di Economia Civile.*

‡ *Osservazioni sopra il Prezzo legale della Moneta di Pompeo Neri.*

§ *Meditazioni sulla Economia Politica.*



upon the use which we can make of them.—The value of things increases therefore with their scarcity, and diminishes with their plenty.”\*

Other writers of great weight think, on the contrary, that things have a real intrinsic value independent of their being exchanged.

*Sir William Petty* was the first who started this opinion, and developed it in a clear and intelligible manner.

“ Suppose a man,” says he, “ could, with his own hands, plant a certain scope of land with corn ; that is, could dig or plow, harrow, reap, carry home, thresh, and winnow, so much as the husbandry of this land requires ; and had withal seed wherewith to sow the same : I say, that when this man has subducted his seed out of the proceeds of his harvest, and also what himself has both eaten and given to others in exchange for clothes and other natural necessities, that the remainder of corn is the natural and true rent of the land for that year ; and the medium of seven years, or rather of so many years as make up the cycle within which dearths and plenties make their revolution, does give the ordinary rent of the land in corn.

“ But a further though collateral question may be, how much money this corn or rent is worth ? I answer, so much as the money which another single man can save within the same time, over and above his expence, if he employed himself wholly to produce and make it ; viz. let another man go travel into a country where is silver ; there dig it, refine it,

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\* *Le Commerce et le Gouvernement*, part i. chap. 1.

bring it to the same place where the other man planted his corn, coin it, &c., the same person, all the while of his working for silver, gathering also food for his necessary livelihood, and procuring himself covering, &c. I say the silver of the one must be esteemed of equal value with the corn of the other.\*

Agreeably to this opinion, the value of things depends on the time consumed in producing them.

Mr. *Harris* has adopted the opinion of Sir William Petty in his *Essay on Money and Coins* : but he has not stated it in so clear and precise a manner.

“ The values of land and labour,” says this author, “ do, as it were of themselves, mutually settle or adjust one another ; and as all things or commodities are the products of those two, so their several values are naturally adjusted by them. But as in most productions labour has the greatest share, the value of labour is to be reckoned the chief standard that regulates the value of all commodities ; and more especially as the value of land is, as it were, already allowed for in the value of labour itself.”

*Galiani* advances on this subject an opinion apparently singular, but which comes very near that of Sir William Petty and Mr. *Harris*.

“ I think,” says he, “ that the standard of all value is man himself, because, next to the elements, there is not any thing more necessary to man than man ; it is on the numbers of men that the price of every thing depends. There is, it is true, an infinite distance from man to man ; but if, by calculations, we succeed in

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\* *Treatise of Taxes and Contributions*, 4to. 1667, page 23.

finding the average value of a man, that value will be the standard measure of all values, because man is, and always will be, the same in all countries.”\*

*Adam Smith* has adopted the theory of Sir *William Petty*, and has extensively developed it with that sagacity and profundity, which are the characteristics of his excellent mind.

He states, that “the value of any commodity to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command.” Whence he infers, that “labour is the real measure of the exchangeable value of all commodities.”†

This doctrine had prevailed, and has been adopted in every work on political economy subsequent to that of *Adam Smith*. The *Earl of Lauderdale* is the only one who has attempted to oppose it, and, what is very singular, the noble Earl grounds his criticism upon the authority of *Adam Smith* himself. Although his criticism is rather long, I did not think it right to omit any part of it, because it throws great light upon one of the most difficult and important subjects of political economy.

“To those who understand any thing of the nature of value,” says *Lord Lauderdale*, “the existence of a perfect measure of value must at once appear impossible: for, as nothing can be a real measure of length

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\* *Della Moneta*.

† *Wealth of Nations*, London, 1805, vol. i. book i. chap. 5, pages 46, 47.



and quantity, which is subject to variations in its own dimensions; so nothing can be a real measure of the value of other commodities, which is constantly varying in its own value. There is nothing which is not subject to variations, both in its quantity and in the demand for it.—Things may alter in their value in four different ways.

“ 1st, at periods not remote; as for example, of the same year.

“ 2d, at remote periods of time, as from one century to the other.

“ 3d, in different countries.

“ 4th, in different parts of the same country.

“ These may be generally considered as the four cases which give rise to alterations in the value of all commodities. Labour, however, is subject not only to all the usual sources of variation, but possesses exclusively the characteristic of varying at the same time and place.”

After having thus announced his subject, Lord Lauderdale proves his assertions by quoting the very expressions of Adam Smith.

“ That labour varies in its value at different periods of the same year, every person must know, who has observed” that ‘ the demand for country labour is greater at hay-time and harvest, than during the greater part of the year; and *wages rise with the demand*. In time of war, when forty or fifty thousand sailors are forced from the merchant-service into that of the king, the demand for sailors to merchant-ships necessarily rises with their *scarcity*, and their wages upon such occasions commonly rise from a

guinea and seven-and-twenty shillings to forty shillings and three pounds a month.\*

“ That labour varies in its value at distant and remote periods of time, seems established by the following facts:—‘ The *real* recompence of labour, the *real* quantity of the necessaries and conveniencies of life which it can procure to the labourer, has, during the course of the present century, increased perhaps in a still greater proportion than its money price.’ †

“ The comparison made betwixt England and America shews clearly the difference that takes place in the value of labour in distant and remote countries: ‘ England is certainly, in the present times, a much richer country than any part of North America. The wages of labour, however, are much higher in North America than in any part of England.’ ‡

“ The following facts,” observes Lord Lauderdale, “ not only shew the extraordinary variations in the value of labour that take place in different parts of the same country: but the ingenious reasoning, which accompanies it, points out why these variations in the value of labour must be more permanent than in any other commodity;” and his Lordship again quotes a passage of the work of Adam Smith, which runs thus:—“ Eighteen pence a day may be reckoned the common price of labour in London and its neighbourhood. At a few miles distance, it falls to fourteen

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\* Wealth of Nations, London, 1805, vol. i. book i. chap. 10, pages 182, 183.

† Ibidem, vol. i. book i. chap. 8, page 122.

‡ Ibidem, vol. i. book i. chap. 8, page 109.

and fifteen pence. Ten pence may be reckoned its price in Edinburgh and its neighbourhood. At a few miles distance, it falls to eight pence, the usual price of common labour through the greater part of the low country of Scotland, where it varies a good deal less than in England. Such a difference of prices, which it seems is not always sufficient to transport a man from one parish to another, would necessarily occasion so great a transportation of the most bulky commodities, not only from one parish to another, but from one end of the kingdom, almost from one end of the world to the other, as would soon reduce them more nearly to a level. After all that has been said of the levity and inconstancy of human nature, it appears evidently from experience, that a man is, of all sorts of luggage, the most difficult to be transported." \*

" This pretended accurate measure of value is not even capable, like other commodities, of forming a true measure of value at the same time and place ; which is evident when we recollect that, at the same time and place, the real and the money-price of labour vary, not only according to the different abilities of the workmen, but according to the easiness or hardness of the masters." †

" Finally," adds Lord Lauderdale, " it appears most extraordinary that the Author of the *Wealth of Nations* should ever have considered labour as an accurate measure of value, for he treats in some part of his work of productive and unproductive labour ; and

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\* *Wealth of Nations*, 1805, vol. i. book i. chap 8, page 117.

† *Ibidem*, vol. i. book i. chap 8, page 121.



it must be observed, that a proposition holding forth a mathematical point as a measure of dimension, would not be more absurd than proposing any thing unproductive as a measure of value.

“ Great, therefore,” concludes Lord Lauderdale, “ as the authorities are, who have regarded labour as a measure of value ; it does not appear that labour forms any exception to the general rule, that nothing possesses real, fixed, or intrinsic value ; or that there is any solid reason for doubting that things are only valuable in consequence of their uniting qualities, which make them the objects of man’s desire, with the circumstance of existing in a certain degree of scarcity ; and that the degree of value which every commodity possesses, depends upon the proportion betwixt the quantity of it and the demand for it.” \*

This criticism of Lord Lauderdale triumphantly overturns, in my opinion, the notion of an immutable standard-measure of value, to which Adam Smith attached so much importance, and for which he felt so great a predilection. The confession which he is forced to make, that the value of labour varies from one place to the other, from day to day, and as it were from one moment to the other, according as it is wanted and as it may be procured, strips labour of the prerogative which he had ascribed to it.

In vain does Adam Smith observe, that it is not the value of labour that varies, but the value of the commodities with which it is paid. This is an idle distinction.

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\* The Earl of Lauderdale’s Inquiry, chap. i. pages 27—38.

As the value of labour experiences a rise and fall perfectly similar to the rise and fall of the price of commodities ; and as this variation in their respective values proceeds from the same cause, that is, from the proportion of the demand to their abundance or scarcity ; there is not any difference possible between the two values ; both are alike liable to vary, and consequently both are alike unfit to form an invariable measure of value.

Money, it is true, is said not to vary, although a larger or smaller quantity of money is given at different periods for a quarter of corn or a pipe of wine, for this plain reason.

When more or less money is given at one time than at the other for a quarter of corn or a pipe of wine, and the same money is paid as usual for all other commodities, it is evident that, in that instance, it is the value of corn and wine that varies, because it is impossible that the value of money, not varying with regard to all other commodities, should vary with regard to corn and wine.

But when the value of money varies with regard to all commodities, that is to say, when a greater quantity than usual is given for a certain quantity of commodities, it is the value of money that varies.

This subject has been developed with the greatest perspicuity by one of the most distinguished modern Italian writers.

“ Money,” says this able author, who is too little known, “ has not absolute value ; its value is always relative ; a guinea is the value of a hat, as a hat is the value of a guinea.—But it ought to be remembered, that the relation between commodities and money may

vary either through a change in the commodities or a change in the money. In the former case, the price of commodities is justly said to be altered; in the latter, the value of money is said to be altered. If newly introduced cloth-manufactures cause a greater quantity of woollen cloth to be purchased with the same quantity of money as before, whatever be the altered proportion of money to cloth, the value of cloth is justly said to be less. But if, on account of a greater quantity of money being thrown into circulation, it happens that all commodities fetch more money than fifty years before, money is justly said to be depreciated." \*

The value of money therefore cannot vary, though more or less money is given than formerly for certain commodities; its value experiences an actual variation only when more money than usual is paid for every commodity.

But the case is different with labour. Its value cannot vary, unless that of each commodity in particular and of the aggregate of all commodities and of money itself varies together with it. If the value of labour rise, it causes all other commodities and even money to sink in the same proportion, that is to say, that if a day's labour which was at 15*d.* rises a fifth, all commodities and money by which it is to be paid sink or are depreciated one fifth; or, in other words, it requires one fifth more of commodities or money to pay for a day's labour. The case is the same, if a day's labour sinks a fifth; commodities and money in

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\* *Jean Baptiste Vasco; Della Moneta; Turin, 1787, 1788.*



that case rise one fifth, or it takes one fifth of commodities or money less to pay for labour.

It is therefore evident, that as commodities and money are invariable and labour variable, it is the value of labour that varies, and not the value of commodities and money. Consequently, the value of labour varies like that of all other values, and labour is no more than any of them entitled to be considered as a general measure of value. \*

Seduced by the opinion that objects have a real value independent of their being exchanged, of which value labour is the accurate measure, Adam Smith has successively extended this attribute to money in some cases, and corn in others, and thought, that wages of labour, money, and corn, are capable of preserving values more or less intact in the midst of the changes, alterations, or modifications occasioned by time in all things. He says: "Stipulations to be paid in corn, in cases of long leases, reserved perpetual rents, or contracts of extensive and as it were unlimited duration, keep their value better than if the payments are stipulated to be in money;" and he supports his opinion by the experience of the last centuries. But I do not think it better founded on that account.

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\* But it is on the ground of labour, or the produce of previous labour, being the only legal way of arriving at the possession of things of value, that labour may in some degree be considered as a general measure of exchangeable value, or as a standard by which the exchangeable value of all commodities may be determined.—*Boilcau's Introduction to the Study of Political Economy*, book i. chap. 8, pages 62, 63.

When a proprietor quits his property against a reserved perpetual rent, or when he grants a long lease to a farmer against a fixed rent, he neither regards the real value of his property, as it has no such value, nor the value he is to enjoy at a future time, which is unknown. By what rule then does he fix the perpetual reserved rent, or the rent of a long lease? Simply by the exchangeable value of his property at the time it is sold or taken in farm upon a long lease, and by the opinion he has of the events by which its value may be modified during the duration of the reserved rent or of the long lease. He enters rather into a gambling contract than a contract grounded upon equivalents. His efforts to balance, by the nature of the reserved rent or of the rent to be paid by his farmer, the risks which he runs, must always prove nugatory; because the obscurity in which futurity is involved is an impenetrable cloud to his interested views.

This profound obscurity can derive no light from the experience of the last centuries. The circumstance that feudal, perpetual, or quit-rents, stipulated to be paid in corn in the fifteenth century, have better kept their value than those that were stipulated to be paid in money, can afford no rule of conduct for the future. The fact is owing to a particular event, which probably will not occur again, and from which no general and universal principle can of course be inferred.

Ever since social order has been consolidated, and since the mercantile system exercises a salutary influence over the political system, money has experienced

greater variations than corn, because commerce and industry have introduced a quantity of money superior to the quantity of corn with which agriculture has been able to furnish commerce; and particularly because money, by being abundantly diffused among all the classes of the people, has conferred a greater exchangeable value upon corn; stipulations to be paid in corn must therefore have become more advantageous than stipulations to be paid in money.

But, if the military system had prevailed and concentrated all the precious metals in the metropolis and among a small number of individuals, would not the contrary have happened, and would not those stipulations to be paid in money, which are so detrimental to proprietors and creditors, and so profitable to farmers and debtors, have proved ruinous to the latter and favourable to the former? The stipulations to be paid in corn would have afforded results similar to those arising from stipulations to be paid in money.

Let us therefore conclude, that men are deluding themselves when they imagine they can subject futurity to steady and permanent laws, and imprint on their power, which is limited and circumscribed by the fluctuation of events, the immensity and immobility of eternity. Whatever efforts we may make, we shall never be able to extend our dominion beyond the present moment, or to give, during this short space of time, a fixed and steady value to things. That value is subject to the laws of exchanges, and to the proportion of the demand to the abundance or scarcity, which is always fluctuating, and which cannot be fixed nor subjected to steady and permanent rules.



We must however acknowledge, with Adam Smith, that this perpetually fluctuating value of things tends to being fixed, since it always gives the producers the equivalent of what their production has cost. Else productions that do not obtain this equivalent, this just return, would no longer be reproduced, or they would be reproduced only in a proportion calculated to re-establish the equilibrium of their exchangeable value. Thus a natural proportion is, as it were, established between the different productions of man's labour; none has a lasting and permanent preponderance over the other, but up to what it has cost. Beyond this all are measured, not by their real, but by their relative value; not by their cost price, but by what they are worth. So that it is the exchangeable value which ultimately gives to every producer the equivalent of what his commodity cost to produce, and consequently secures the producers against loss.

But does not this exchangeable value afford to some producers profits superior to those which it gives to others; and are commercial exchanges to be continued, and circulation to be maintained in its activity, in that case?

In spite of the tendency of exchangeable value to insure to every producer the equivalent of what his production has cost, it yet cannot be denied that, when exchangeable value has reached this point, it is liable to vary and to grant to some producers advantages which it denies to others. Suppose a farmer expends, either in wages, interest of capital, or rent, one hundred pounds sterling, to grow fifty quarters of corn; whilst a manufacturer of woollen cloth expends only

seventy-five pounds to manufacture one hundred yards of cloth, the exchangeable value of which is one hundred pounds; it is obvious that the farmer, if he obtain only one hundred pounds for his fifty quarters of corn, is less benefited by a fourth, or five-and-twenty pounds, than the manufacturer; and that, as long as their respective situation is the same, the wealth of the manufacturer is progressive, and that of the farmer stationary.

Adam Smith observes, that the superiority of certain labours and employments of capital over other labours and employments of capital cannot be of long duration, because those which are least favoured go over to the most favoured ones, and by their competition re-establish, if not a perfect equality, at least a certain proportion between the profits of all labours and employments of capital.

This is, no doubt, the case when the exchangeable value does no longer afford to a labour or employment of capital, the equivalent of what its production has cost; because, in that instance, the smallness of the equivalent informs the producer of his loss: but it is difficult to conceive how this can happen, when the equivalent covers all the expences of the producer, when nothing informs him that what he has obtained as an equivalent has not cost so much to produce as his production. I am even convinced that it never happens in common life, and that, among all labourers and employers of capital, there are not two classes, or perhaps not two individuals, capable of discovering which labours and which employments of capital yield

the best returns. Every one is attached to the labour or employment of capital to which he has given the preference; and when he begins to perceive that it is not as profitable as others in which he might have embarked, it is generally too late to quit his pursuit and to go over to that which he ought to have preferred.

To inquire into the most advantageous employment of capital appears, after all, not desirable; the private wealth of certain classes and individuals resulting from the advantages which exchangeable value gives them, affords an incitement to general emulation, activity, and industry, and to aim at effecting a proportionate equality in the benefits of all labours and all employments of capital, would perhaps be attended with pernicious consequences.

The case is different when the advantages which exchangeable value gives to certain productions are derived from bad laws or the partiality of governments, and due to monopolies, privileges, and bounties. Discouraged by the privations to which they are doomed, and sometimes by the sacrifices to which they are forced, the labouring classes are then pining, they attach less importance to the increase of their capitals, and both their industry and wealth decline apace.

Except this highly important case, which is little attended to, I think national wealth has nothing to apprehend from, and cannot be injured by, the inequality of profits resulting from the various exchangeable value of the produce of labour which is circulated at home.



But is the inequality of profits in the exchange of home for foreign produce equally harmless?

Suppose a nation excels another in industry, in the accumulation of capitals, and in sciences and arts, and both nations interchange the produce of their labour; will not the productions of the industrious, enlightened, and wealthy country, have a more considerable exchangeable value, than those of the country inferior in knowledge, industry, and wealth? As her productions are really better, more acceptable, and cheaper, will they not be preferred? And if the circulation of the foreign commodities meet with no obstacles, will not labour diminish in one country, and augment in the other; or, at least, will not one nation appropriate to itself the most lucrative labour, and steadily advance on the road to wealth, whilst the other, being confined to the least profitable labour, pines in continual and intolerable misery?

Among the distinguished writers who hold this opinion, *David Hume* and *Cantillon*, in particular, think that rich nations are far from having the advantage in their dealings with poor nations, and that the latter generally get rich in the end at the expence of the former.

“The advantages of a rich trading country,” says *David Hume*, “are compensated in some measure by the low price of labour in every nation which has not an extensive commerce. Manufactures gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions

and labour, till they have enriched these also, and are again banished by the same causes." \*

But the observation is more specious than founded.

A country can grow rich only when industry is favoured by nature, and ably seconded by government : in proportion as prosperity increases, the wages of the labouring classes are raised. But let it not be supposed that increased wages are necessarily productive of higher prices. When the labourer is well paid, he labours more and better ; the high price of his labour is profitably compensated by an enlarged and improved produce. The fact is established by every traveller who has compared the produce of labour in countries where labour is badly or well paid.

The cheapness of capitals, on the other hand, sinks the price of the productions of the rich country, because it affords the means of setting up machines which shorten and facilitate labour, of selecting the best raw materials, and of granting long credits ; all which are advantages so superior to low wages of labour, that they insure to the nations that enjoy these advantages, an absolute preponderance over those that have them not.

*Lord Lauderdale* says precisely the same. The noble Earl thinks, that *David Hume* " did not sufficiently attend to the unlimited resources that are to be found in the ingenuity of man in inventing means of supplanting labour by capital ; for any possible augmentation of wages that increased opulence can occa-

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\* *Essays by David Hume*, Edin. 1804, vol. i. of *Money*, p. 300.

sion, is but a trifling drawback on the great advantages a country derives, not only from the ingenuity of man in supplanting labour by machinery, but from capital laid out in roads, canals, bridges, inclosures, shipping, and employed in the conduct of home and foreign trade." \*

The sentiments of Cantillon and David Hume on this subject ought therefore not to arrest our attention any longer.

But *Dr. Quesnay* has started a singular opinion.

He not only is not afraid of the augmentation of the wages of labour raising the prices of productions and injuring their sale ; but he even wishes to persuade us that the low price of labour, which sinks the exchangeable value of commodities, renders the trade with a foreign country less profitable. "The national income," says he, "is always greater in proportion as the exchangeable value of commodities is high. Abundance and dearness are opulence." †

This doctrine is absolutely contrary to the elementary notions of political economy. If man's propensity to truck and barter, or rather his desire of enjoyment and happiness, promotes the circulation of the produce of labour, it must be more active when the number of those who have any thing to exchange is considerable, and when the objects to be exchanged are in great quantity and variety ; when the commodities to be exchanged originally cost little, and when their price is within the reach of a larger number of consumers ; or, in other

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\* *The Earl of Lauderdale's Inquiry*, chap. v. page 299.

† *Physiocratie*, Max. 18, page 116.



words, the cheaper commodities are, the more consumers do they find, the less precarious is their sale, and the more profitable are their returns.

Mr. *Say* has expressed this truth by an image of great brilliancy and admirable correctness.

“Consumption,” he says, “resembles a huge pyramid; the breadth of the pyramid represents the number of consumers, or the extent of the demand; and its height, the price of the commodity: the higher the price, the smaller the breadth; that is, the demand. Sometimes the natural price of certain commodities rises higher than the pyramid; that is, to a height where there is no demand; such commodities are no longer produced.”\*

If such be the ultimate result of the high price of labour; (and the fact is certain,) it is evident that opulence does not consist in abundance and dearness, which are incompatible; but in abundance and cheapness, which always harmonize. In short, nations are so much the richer, as commodities are in greater plenty and at lower prices; and by a consequence equally infallible, their commerce is so much the more profitable, as the productions of their labour are cheap.

What then ought nations to do that are poor, or inferior in wealth, and do not derive from the general circulation of the produce of their labour the same profits as rich nations?

Must they insulate themselves, multiply custom-houses and prohibitions, and refuse to communicate with richer nations?

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\* *Traité d'Economie Politique*, par *Say*, tome ii. page 72.

The best-guarded toll-bars are generally powerless against the cheapness and perfection of foreign commodities. Private interest easily overleaps them, and turns them to the disadvantage of the people whom they keep confined.

These bars not only do not exclude the productions of rich countries, but this very obstruction causes them to stand much dearer to the poor country, and, what is still more deplorable, forces the poor country to sell its own produce cheaper, because there are less competitors to export it. Thus poor nations are punished for their endeavours to do without the raw and manufactured produce of rich countries. And were their imprudent efforts crowned with success, they would be still more miserable. They would deprive themselves of the certain profits arising from the cheapness of the foreign commodities and from the dearness of their own productions. For it is an undoubted truth, that foreign produce is imported only as far as it is cheaper than the home-produce; and for the same reason, home-produce is exported only because it obtains higher prices abroad than in the home-market. The rule is infallible; it proceeds from the immutable order of things, and is not liable to any exception.

Nature has granted every country some particular advantages, of which she cannot be stripped, and of which others can partake only as far as they let her enjoy part of the advantages of which she is deprived. Nations that resist this communication of mutual benefits, are dooming themselves to fruitless privations. To attempt to conquer such difficulties by national industry, is often impossible, and always more expen-

sive, than to acquire the foreign commodities by an interchange of national productions. Commerce preserves to every country her advantage in the kind of industry for which she is peculiarly fit, and allows that industry to be improved by a concentration of capital; whilst the attempt to rival foreign industry in every particular, and to do without foreign produce, weakens and splits its capitals, hurts national industry, impedes its productiveness, stints its growth, and converts its ramifications into as many parasite branches which unprofitably suck the sap of the tree and remain barren twigs.

Left without rivals, without competition, and abandoned to its own impulse, national industry painfully drags along in the beaten tract, it derives no benefit from the progress of general industry, and without having decayed, experiences a fatal decline. Such is the ultimate fate of every nation that disdains foreign commerce, and fancies it can exist without any intercourse with other nations, or at least that deems itself so much the richer as its exterior communications are few, and as it has more internal means to supply its wants. It stops the progress of wealth, condemns itself to everlasting mediocrity, and obstructs the grandeur of its destiny.

There is however, it must be confessed, one peculiar case in which a nation ought to renounce all intercourse with other nations; this is, when its government is so bad, that it strips it of all means to rival other nations in any production and in any branch of industry whatever. Such a nation is forced to renounce general commerce, otherwise its resources



would soon be exhausted, it would become tributary to nations that are better governed, and never could shake off its dependence. Nations smarting under a bad government would labour for those which enjoy a good administration, and the latter would enrich themselves with the sweat of their brows; sad and deplorable result, which teaches the depositaries of the fate of nations the necessity of attentively studying the causes of their prosperity, which is the basis of political power.

*Adam Smith* states three other cases in which nations ought to restrain the circulation of the produce of general labour.

The first is, when the safety of the country is concerned; which was, says he, the case with England when her act of Navigation was framed; "an act prejudicial to the growth of wealth: but as defence is of much more importance than opulence, the act of Navigation is, perhaps, the wisest of all the commercial regulations of England."\*

This manner of viewing the English act of Navigation betrays in the author a greater attachment to his country than to truth.

Before this act of Navigation, the Dutch had the greatest share in the maritime commerce of the world, and were indebted to their trade for a formidable navy and immense riches. But whatever might have been their power in both these respects, it could not threaten the safety of England; and it cannot be supposed that

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\* *Wealth of Nations*; London, 1805; vol. ii. book iv. chap. 2, page 203.

a population of about two millions of individuals, who had scarcely attained the rank of a free and independent nation, could inspire with serious alarms a population of five or six millions, who were still burning with the enthusiasm of liberty. Adam Smith himself acknowledges as much.

“ In the Dutch war,” he says, “ during the government of Cromwell, the navy of Great Britain was superior to that of Holland; and in the war which broke out in the beginning of the reign of Charles II, it was at least equal, perhaps superior, to the united navies of France and Holland.”\*

The safety of England, therefore, was not, as Adam Smith pretends, the true cause of the framing of the act of Navigation. Its regulations proceeded from national animosity, rivalry, and ambition; and they certainly were well calculated to gratify such dreadful passions.

By excluding from the ports of England vessels that imported any other produce than that of their own country, the act of Navigation seemed to invite all maritime nations to share in the advantages of navigation which the Dutch enjoyed, as it were, exclusively. But as those nations had no vessels, they could not avail themselves of the advantage that was offered, nor enrich themselves with the spoils of Holland; so that this measure weakened the naval power of Holland without any benefit to the maritime nations. No one except England reaped any profit from it: not only was her naval strength increased by the weakness

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\* *Wealth of Nations*, vol. ii. book iv. chap. 7, page 451.

of her rival, but she also succeeded Holland in that maritime trade which she had interdicted. From that instant the naval power of Great-Britain acquired an absolute preponderance over that of all other nations, and ruled the seas.

Had the maritime and continental nations of Europe been alive to their true interests, they might easily have counteracted a measure pernicious to the circulation of their produce. It would have been sufficient to exclude from their ports British ships loaded with any other than British produce ; and the consequence would have been this :

England, being reduced to carry in her ships her own raw and manufactured produce, could not have profited by the spoils of Holland, nor could she have grown rich by the losses of the Dutch. Her naval power, limited by that of her rival, could not have dictated laws to the other seafaring nations.

Sweden alone dared to resist this imperious measure, and forced England to relinquish it towards her. \*

But the example was not followed. The other nations submitted to the yoke ; and from that instant

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\* *Macpherson's Annals of Commerce*, vol. ii. page 552 ; or *Anderson's Origin of Commerce*, vol. ii. pages 145, 146 ; where it is said, that : “ although one of *Sir Josiah Child's* most principal aims was the pointing out the increasing commerce of Holland, yet, in the close of his Preface, he observes, that the Swedes have laid such high impositions on their own merchandize, unless they be carried in Swedish bottoms, as amounts to almost a navigation act in Sweden.”—T.



England exercised an absolute dominion over general circulation, or commerce.

It is therefore without any foundation that Adam Smith has transformed the English act of Navigation into an act of safety. It is evidently nothing but an act of hostility and ambition, incapable of forming a just exception to the necessity of a free circulation of the produce of general labour.

The second case, which, according to Adam Smith, ought to induce a nation to restrict the liberty of commerce, is when the produce of foreign industry is not burthened with a tax equal to that imposed upon the produce of inland industry. He thinks it is then reasonable that an equal tax should be imposed upon the like produce of foreign industry, because foreign industry would else have a certain advantage over the produce of national industry.

This second limitation of the freedom of trade has led Adam Smith to examine whether it ought to be extended to the produce imported from countries which impose no tax upon objects of the first necessity, whilst in the country into which they are imported the necessaries of life are burthened with a tax. And although this second case appears every way similar to the first, his decision is precisely the contrary to what it had been in the former case. The arguments on which he grounds this diversity of opinion, are :

1. That it might always be known with great exactness how far the price of such a commodity could be enhanced by such a tax : but how far the general enhancement of the price of labour might affect the

price of every different commodity about which labour was employed, could never be known with any tolerable exactness.

2. That taxes upon the necessities of life have nearly the same effect upon the circumstances of the people, as a poor soil and a bad climate ; and as in this case it would be absurd to direct the people in what manner they ought to employ their capitals and industry ; it would be equally absurd, on account of an artificial scarcity arising from such taxes. To be left to accommodate their industry to their situation, and to find out those employments in which, notwithstanding their unfavourable circumstances, they might have some advantage either in the home or in the foreign market, is what in both cases would evidently be most for their advantage.

3. That, to lay a tax upon the foreign produce, because the home produce is already overburthened with taxes, and to make the natives pay dear for the greater part of other commodities, because the necessities of life are dear, are certainly two most absurd ways of making amends.\*

But in spite of Adam Smith's endeavours to establish a difference between the two cases, I think there is none : to burthen the produce of foreign industry with taxes equal to those imposed upon the produce of national industry, and not to impose any tax upon the raw produce of a foreign country, although the produce of the soil at home is burthened with a tax, appears a contradiction. If, in the first case, national

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\* *Wealth of Nations* ; London, 1805 ; vol. ii. b. iv. ch. 2, p. 206.

industry would be discouraged, national agriculture would be alike discouraged in the second. Consequently, if the equality is to be restored in one case, it ought to be so in the other.

The question therefore remains, and we must still examine, whether nations ought to refuse circulating the raw and manufactured produce of other countries, under the pretence that the exchangeable value of their productions does not afford them equivalents equal to those which the foreign producer receives. I think the question is completely answered by what I have stated above.

If the equivalent obtained by commerce does not repay the national producer for what his commodity has cost him to produce, he will cease producing it, and employ his capital and industry in some other labour in which he is enabled to stand the competition, and to reap profits equal to those of the foreign trader; or if all productions are burthened with taxes to such a degree, that none can stand the competition with foreign productions, not even in the home-market, government in that case is so bad, that it becomes a matter of indispensable necessity to stop all kind of foreign commerce.

Finally, Adam Smith examines how far it may be proper to continue the free importation of certain foreign goods, when the foreign nation restrains, by high duties or prohibitions, the importation of some of our manufactured produce into their country; and he justly decides, that when there is no probability that retaliation will procure the repeal of such prohibitions, it is a bad method of compensating the injury done to



certain classes of our people, to do another injury ourselves, not only to those classes, but to almost all classes of the community. Such law would impose a real tax upon the whole country, not in favour of that particular class of workmen who were injured, but of some other class \*.

Thus, of all the motives which may induce a nation to prohibit the importation of the produce of other countries, there is but one that is reasonable and just, because it is necessary; I mean when the government of our own country is so defective, that none of our home-productions can stand a competition with foreign productions even in the home-market; when national industry is not capable of being stimulated by the rivalship of foreign industry; and when the people, being discouraged and debased, abandon themselves to sloth and misery. Except this case, foreign commerce or general circulation is beneficial, useful, and profitable to all, and contributes, if not with equal, at least with certain success, to the progress of public and private wealth.

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\* The author says: "*Autrement c'est imposer une taxe sur tout le pays en faveur de la classe d'ouvriers qui fournit les produits prohibés;*" which is perfectly correct: but Adam Smith shews particularly, that the workmen who suffer by our neighbour's prohibition are not benefited by ours, which is the main point of the question. (Wealth of Nations, 1805, vol. ii. book iv. chap. 2, pages 207—210.)—It is this point which the framers of the famous English Orders in Council, by which it was intended to retaliate upon France, appear not to have sufficiently considered.—T.

## CHAP. III.

*Of the influence of Money and Credit upon the Circulation of the Produce of Labour.*

As soon as mankind discovered that commodities have no value but what is determined by their being exchanged, they must easily have perceived that this value is always in proportion to the extent of the competition; that is to say, that the more a produce is sought for, the more is its exchangeable value enhanced: of course, every producer would carry his productions to the place where the competition was the most considerable, and consequently the market of the borough must have been preferred to the village-market, that of the town to the borough's, that of the capital to the town's, and that of great fairs and staple cities to the market of capitals.

This direction of the circulation of the produce of labour is visibly the work of commerce; and it is exclusively to merchants that we are indebted for the benefits which it diffuses.

The interest of the producers and traders would, however, have been but imperfectly consulted, if on the most advantageous spot for their exchanges they should have been unable to procure the commodities they wanted otherwise than by the actual interchange of raw and manufactured produce. How many exchanges would they have been obliged to make

before the grower of a quarter of corn could have obtained a dozen of stockings or a pair of boots, or before the corn-merchant could have exchanged his stock of wheat for the commodities he wanted ! What toils, what trouble must they have undergone, how much time must they have lost, before they could accomplish an operation so simple and so easy !

How was this operation discovered ? how was the material or actual exchange of produce avoided, and yet its reciprocal value fixed, as if the exchange had been effected with material produce ?

Adam Smith supposes, that after the first establishment of the division of labour, every prudent man, in every period of society, must naturally have endeavoured to manage his affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry ; that many different commodities were at different times employed for this purpose. In the first ages of Greece, cattle was thus employed ; in Abyssinia, salt ; in some parts of the coast of India, a species of shells ; dried cod, at Newfoundland ; tobacco, in Virginia ; sugar, in some of the West-India islands ; and hides, or dressed leather, in some other countries. \*

It evidently follows from these facts, that, in the very first stages of civilization, men determined the exchangeable value of the produce of their labour,

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\* *Wealth of Nations*, vol. i. book i. chap. iv. page 36.



not by comparing it with the commodities offered to them in exchange, but by comparing it with a preferred produce. Thus the owner of a quarter of corn did not say : ‘ My quarter of corn is worth the dozen of stockings, or the pair of boots that I am offered for it : ’ but ‘ it is worth so much of the preferred commodity, as will get me a dozen of stockings, or a pair of boots. ’—This new mode of exchanging simplifies the operation, and yet leads to the same results.

Had matters continued in this primitive simplicity, the nature of the preferred commodity and its functions in exchanges would never have been mistaken, and the numberless and fatal errors of the monetary system would have been avoided.

But merchants having succeeded in making all civilized nations receive gold and silver as the preferred produce, it became necessary to fix the exchangeable value of the precious metals, to divide them in portions proportioned to the wants of commerce, and to assign to each portion a value strictly proportioned to the totality of the value assigned to a certain mass of gold and silver.

This operation appeared impossible, not only on account of the exchangeable value of gold and silver, being liable to fluctuate like all other values, but also from the difficulty of giving to the coined metals a numeric value and an invariable fineness always equivalent to their intrinsic value.

This second impossibility has been officially and solemnly recognised at a period not very remote from our time.

In 1788, the French government consulted the

Royal Academy of Sciences, to know whether it was possible to give to coined metals a monetary value and an invariable fineness always equivalent to their intrinsic value. Five academicians\*, who were named commissioners for this purpose, demonstrated by different experiences, that it was not possible to fix with strict accuracy the relation of two representative and intrinsic values, both because it is impossible to determine the quantity of alloy to be added to the precious metals for the purpose of giving the coin that resistance and incorruptibility which form one of its essential properties, and because it is extremely difficult to render perfectly homogeneous a mixture of metals which prevents the precise quantity of each being ascertained, as the alteration which the action of the fire may produce upon them cannot be foreseen †.

This defect, peculiar to the converting of gold and silver into money, was, however, neither the most disagreeable nor the most prejudicial to the general circulation of commodities. An enlightened government might wish to make it disappear, and to give its coin the highest attainable degree of perfection: but this praiseworthy attempt could not remedy the original defect inherent in metallic money; that is, it could not confer upon gold and silver coin a positive and absolute exchangeable value, when that value is and can be but relative to the demand for coin and to the quantity in circulation. It is this defect which

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\* *Borde, Condorcet, La Grange, Lavoisier, and Tillet,*

† *Histoire de l'Académie des Sciences, année 1728.*

has given rise to the frequent alterations of the monetary system, to the numerous errors with which these alterations have been attended, and the countless systems invented to correct or prevent them.

The first difficulty on this subject is to know what is meant by money, what is its nature, and wherein it consists.

Several writers, and among them the celebrated Montesquieu, consider money as an ideal and arbitrary sign of value ; and it will easily be credited that a doctrine, so favourable to the supreme authority, was immediately adopted by all governments. They have all alternately raised or sunk the nominal value of money according to their wants and temporary interests ; and what is not less strange is, that when this injury was done to public and private property, governments were ignorant of the nature and extent of the evil which they brought upon individuals and nations. The most intelligent men of all nations have been obliged to devote their studies to elucidate this important part of the science ; and it is now demonstrated that the value of money can only be raised or sunk in three different ways :

Either by altering its fineness and standard ;

Or by diminishing its weight ;

Or by giving it a value superior to the exchangeable value of the metals of which it is composed.

When governments alter the fineness or standard of money, and yet retain its nominal value ; if the alteration amounts to 1-20th, the state loses 1-20th of what is due to it from abroad ; or, if the state is indebted to foreign countries, it pays 1-20th more,



because the foreigner is paid in merchandize, and gets 1-20th more than he would have got had not the standard of money been altered. Foreigners even do not confine themselves to this benefit; they introduce counterfeit money into the country, and gain the difference between the nominal value of the new and the real value of the ancient coin.

The advantages which foreigners derive from the altered standard of money, influence the exchange, turn it against the state, and in a short time exhaust the country of its wealth.

An alteration in the weight of coin, without meddling with its standard and its nominal value, is liable to less inconveniencies, because the nation immediately perceives this alteration, and guards against it by raising the price of the produce of labour.

But this raising of prices in proportion to the diminution in the weight of money, does not either prevent or stop the evil. The heavy coin is exported or melted; the active debts which the state has outstanding abroad, are reduced by the whole amount of this diminution in the weight of the coin; which reduction occasions incalculable losses in trade.

Finally, the raising the value of money without altering either its standard or its weight, furnishes foreigners with the means of liquidating their debts with a smaller quantity of the precious metals, or getting paid for what is due to them by requiring a more considerable value; of purchasing the national produce cheaper, and selling their own at the same price as before; of introducing counterfeit money into the state, and of profiting by the difference

between this counterfeit coin and the real price of the precious metals.

This occasions the same disadvantages in the exchange, which have been observed with regard to the alteration of the fineness or standard of money.

Independently of the losses which the alteration of money brings upon nations in their commercial dealings with other nations, its effects are not less disastrous in their interior, civil, and domestic concerns.

1. It causes money to be hoarded, which obstructs payments, multiplies failures, impairs credit, diminishes and interrupts labour, reduces the labourers to misery, and occasions universal despair.

2. It alters the price of wages and of personal services, and the stipulations of contracts, deprives labourers, servants, pensioners, and creditors, of part of what is due to them, encourages bad faith, and inflicts a fatal blow to morals.

3. It deprives the sovereign of part of his revenue, forces him to disastrous measures, exposes the state and the subjects to violent commotions, and carries disorder and confusion into every department of civil society.

Not only ought money not to undergo any alteration in its standard or fineness, or in its weight and exchangeable value; but if it be composed of different metals, the proportion of their exchangeable value must also be strictly preserved; so that if the exchangeable value of gold is to that of silver as one to fifteen, that proportion must be accurately observed between the two metals; else the coin, the exchangeable value of which is superior to its nominal value, would

immediately be exported or melted, whilst that of which the exchangeable value is inferior to its nominal value, would occasion an importation of counterfeit coin, which would bring a double loss upon the state and injure internal circulation.

Lastly, the coin of a country ought not only to preserve the proportion of its exchangeable value; that proportion ought also to be observed in the fractions of coin, else the nation is again exposed to have its over-heavy fractional pieces of coin exported or melted, and the lighter ones counterfeited.

These inconveniencies of the monetary system, which have been so well developed by celebrated writers\*, overturned the opinion which had at first been formed of money, and it was no longer considered as an ideal and arbitrary sign of value. It was supposed that the share which money has in the interchange of commodities consists in fixing the value of each produce. Accordingly, the most enlightened writers, among whom ranks David Hume, taught that money is “ nothing but the representation of labour and commodities, and serves only as a method for rating or estimating them.”

“ Money,” says Hume, “ is not, properly speaking, one of the subjects of commerce; but only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is not one of the wheels of trade; it is the oil which

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\* In England, by *Locke*; in France, by *Dutot*; in Italy, by *Davanzati*, *Broggia*, *Galiani*, *Carli*, *Neri*, and *Beccaria*.



renders the motion of the wheels more smooth and easy.\*"

Though this opinion is rather incorrect, (as we shall see hereafter,) it yet had one good effect; it led to the inference, that since money is the standard measure of value, it cannot be altered without injuring commerce. To augment the value of a coin, a sixth, by altering its standard, its weight, or the exchangeable value of the metal of which it is composed, was perceived to be exactly the same operation as if the capacity of a bushel was reduced by a sixth, and that measure yet retained the same name. It hastened the discovery that such an alteration destroyed commercial relations, injured civil transactions, and paralysed business; and the necessity of respecting the standard measure of exchangeable value was at length submitted to.

Enlightened by the errors of the writers who had gone before them, *Count Verri* in Italy, and *Adam Smith* in England, gave accurate notions of the nature and functions of money.

"Some," says *Count Verri*, "fancy that money

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\* *Hume's Essays*, Edinb. 1804, vol. i. of Money, page 299. But the quotation in the French has this comparison: "*L'argent peut être comparé à beaucoup d'égards aux voiles d'un vaisseau sans le secours desquelles un bâtiment ne pourroit traverser l'espace des mers et naviguer dans les pays les plus éloignés.*" Which is probably taken from one of the first editions of *Hume's Essays*; for I have not been able to find this comparison in any of the later editions. Its purport is, that money may, in many respects, be compared to sails, without which a ship could not cross the seas and reach the most distant shores.—T.

is the representative of the value of things : but money is a commodity, a metal, whose value is represented by the commodity for which it is exchanged ; and the property of representing value is common to any other merchandize.

“ Others think money is a pledge, an instrument to obtain merchandize : but merchandize is likewise a pledge, an instrument to obtain money ; and any merchandize is also a pledge, an instrument to obtain any other merchandize.

“ Others still define money the common measure of things ; they forget that money is a value, and the raw material of many manufactures, and that whatever has a value is measured by the value of other commodities.

“ These definitions, therefore, do not particularly agree with money, and do not comprise all its attributes. The error arises from the anxiety of considering money as something more than a simple metal. Money has a stamp, but receives no value from this stamp.

“ Money is the universal merchandize, that is, the merchandize which, on account of the smallness of its volume, which renders its transport easy, and on account of its divisibility and incorruptibility, is universally acceptable and taken in exchange for any other merchandize. I therefore think that considering money in this point of view, is attaching to it the idea which corresponds with all its functions.”\*

The definition which Adam Smith gives of money,

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\* *Della Econ. Polit.* § 2.

though less circumstantial than that of Count Verri, is precisely the same.

“ In all civilized nations,” says Adam Smith, “ money has become the universal instrument of commerce, by the intervention of which goods of all kinds are bought and sold, or exchanged for one another.”\*

Reduced to its true nature, that is, considered as a preferred commodity, and, as such, as a general instrument of commerce, money has been released from that dependent and arbitrary state to which it had been too frequently exposed, and henceforward it is safe against all financial or fiscal operations.

As a produce of labour, money has an exchangeable value, which is determined by the demand for it, and by its abundance, or scarcity. As a preferred commodity, it has a higher exchangeable value : but for this increased value it is indebted merely to the nature of the metals of which it is composed. Public authority, which by its stamp confers upon it the character of legal money, adds nothing either to those metals or to their exchangeable value, and therefore cannot give it any other value than what commerce confers upon those metals. The monetary law is simply declaratory of the fact, and can neither change nor modify this fact; it never can be arbitrary.

Should modern sovereigns assign to money a value in exchange superior to what general commerce assigns to it, either by the alteration of the standard of the metal, the diminution of its weight, or the raising of

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\* *Wealth of Nations*, 1805, vol. i. page 44.



its price or exchangeable value, they would be the victims of their error, and would entail upon their subjects immense losses, which would soon have a powerful re-action upon themselves. The prosperity of nations, it seems, has nothing more to dread from adulterations of coin, and this is an essential service derived from the progress of political economy.

But although all good writers are now agreed, that the law cannot confer upon money any other value than that of the metals of which it is composed; there are some very enlightened authors who think that a small addition to that value might be of use to prevent the exportation of money, and that a slight duty upon its coinage would accomplish this salutary end.

“A small seignorage, or duty,” says Adam Smith, “upon the coinage of both gold and silver would probably increase still more the superiority of those metals in coin above an equal quantity of them in bullion. The coinage would in this case increase the value of the metal coined, in proportion to the extent of this small duty; for the same reason that the fashion increases the value of plate in proportion to the price of that fashion. The superiority of coin above bullion would prevent the melting down of the coin, and would discourage its exportation. If, upon any public exigency, it should become necessary to export the coin, the greater part of it would soon return again of its own accord. Abroad, it could sell only for its weight in bullion. At home, it would buy more than that weight. There would be a profit, therefore, in bringing it home again. In France a seignorage of about eight per cent. is imposed upon the coinage, and

the French coin, when exported, is said to return home again of its own accord."\*

Several distinguished writers are of an opinion directly opposite to that of Adam Smith. They think that all duties on money are bad, and that the expence of coining ought to form part of the public expences. *Mr. Henry Thornton's* opinion on this point is entitled to particular attention.†

But I shall not quote his opinion, because the motives on which he builds it are grounded upon the nature and principles of a combined circulation of paper and metallic currency : and the investigation of these motives might betray me into an unavoidable confusion that would require extensive developements. My regret at being obliged to omit the opinion of that distinguished writer is, however, lessened by the hope of refuting Adam Smith even without his assistance.

When a country cannot pay with the produce of her labour for the value of the foreign produce which she consumes, she has no other means of acquitting herself, than by exporting her metallic money ; and whatever value she may have set upon her coin, it obtains no other value with the foreign creditor than that of the metal of which it is composed, and is received in payment only up to that value. The seignorage or duty on coinage is reckoned for nothing and does not prevent the money being exported.

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\* *Wealth of Nations*, vol. i. page 70.

† *Henry Thornton's Inquiry into the Nature and Effects of Paper Credit*, page 205.

When circumstances change, and the country, on re-establishing her affairs, instead of being indebted to a foreign country, becomes her creditor, the balance is then paid to her in her own coin, but not according to its metallic value, as she has paid it, and as Adam Smith seems to suppose, but according to its numeric value ; so that the foreign country benefits the value of the coinage superadded to its metallic value.

The surcharge of a duty on coinage or seignorage, far from being advantageous, is extremely detrimental to nations ; it aggravates the distress of their situation when they are obliged to export their money, and impedes the re-establishment of their affairs when they begin to take a favourable turn.

In fine, if money be nothing but a preferred commodity, as I think I have shewn ; a commodity for which every one readily consents to exchange any other produce ; its exchangeable value is determined by the exchangeable value of the metal of which it is composed, or, in other words, by the proportion of the demand for it to its abundance or scarcity ; and as the duty on coinage or seignorage adds nothing either to the demand for it, or to its abundance or scarcity, it has no influence whatever upon its exchangeable value.

Not only does such a duty on coinage afford none of the advantages that Adam Smith has ascribed to it, but, in my opinion, it is liable to very great inconveniencies.

1. It augments the charges of the circulation of commodities, and of course raises their price ; and though this increase of price be not considerable, it



may yet be prejudicial to their being sold abroad, restrict their consumption at home, and even insure to foreign commodities, which are not liable to it, a preference over those which are burthened with this duty.

2. It keeps bullion from the countries where it is deprived of the facility of being converted into money, or where, at least, that faculty is burthened with a duty; and consequently it must render coin scarcer than in countries where bullion is converted into money without paying any duty or seignorage.

Every thing therefore tends to shew, that even the smallest duty upon coinage is of no avail to keep metallic money in the country, that it alters its destination and its functions, and injures the general circulation of the produce of labour.

Another question, originating in the very nature of money, has occupied the attention of governments and philosophical inquirers, and has not yet been generally answered; that is, whether either gold or silver alone ought to be admitted as money, or whether equal favour ought to be shewn to both these metals.

The doubts on this question arise from the circumstance, that if it be difficult to fix the fluctuating exchangeable value of money, the inconvenience is still more serious when the exchangeable value of two metals is to be fixed, which, varying in their value, render commercial exchanges unequal, and subject them to chances which carry confusion into mercantile operations.

Suppose a person sells four quarters of wheat for ten

guineas. If gold and silver perform alike the functions of money, the purchaser may pay the ten guineas either in gold or in silver: yet it may not be immaterial to the vender, whether he be paid in gold or in silver.

If the proportion between the two metals be not accurate; if gold, which, according to its market-price, should be fixed in the proportion of fifteen to one, be only fourteen and a half, the buyer will pay in silver, and the seller, instead of receiving ten guineas, or ten pounds ten shillings, will actually get but about ten pounds two shillings. Should the contrary happen, should gold be rated fifteen and a half, when its market-price is fifteen; then the buyer will pay in gold, and the vender again will only receive about ten pounds two shillings instead of ten pounds ten shillings.

This fact may appear of small importance at first sight, because individuals become alternately venders and purchasers; and what they lose in one transaction, they regain in the other. But this view of the matter is evidently erroneous and defective.

Most commodities are exchanged by the intervention of merchants, who, when they make their purchases, pay in the least advantageous coin; and when they sell, they take care to fix the prices as if they were to be paid in the least favourable coin: so that the fluctuation in the value of gold and silver coin gives the trading class, in every instance, an infallible advantage over the labouring and productive classes.

The inconvenience of two metallic currencies was early observed by the best understandings. Locke

saw no other remedy for it, than to attribute the function of money exclusively to silver.

His opinion has been followed by most commercial nations, and, some slight differences excepted, gold is every-where considered as a merchandize, and silver alone performs the functions of money. \*

This example has been neglected by nations less familiar with the operations of commerce. In spite of the doctrine of all good writers, and notwithstanding the efforts of all enlightened minds, some nations have not ceased to admit both gold and silver as money; which occasions considerable inequalities in their dealings with other nations, and subjects them to infallible and unexpected losses.

Let it however not be inferred from this theory, that all nations ought suddenly to apply it to their monetary system; local and temporary considerations may oppose the actual depriving gold of the functions of money, or at least require important modifications in the operation. The care of repairing the evils occasioned by time must sometimes be left to time, and, as I have frequently observed in the course of this work, it is not always in the power even of the most enlightened governments to attain the end pointed out by the philosophical inquirer. Between practical truth and speculative doctrines, the interval is immense, and it is to their approximation in proper times, that the philosopher confines his wishes, and that governments ought to direct their efforts.

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\* Such as Hamburgh, Lubeck, Bremen, Dantzick, and Holland. It is only since 1728, that England has given currency to gold.



Another question, more interesting, more extensive and more difficult to resolve, is, whether there be a known and fixed proportion between money and the produce which it is to circulate, and, in case the existence of such a proportion should be doubted, whether the abundance of metallic money be beneficial, injurious, or indifferent to the progress of wealth.

Many celebrated writers on subjects connected with political economy have examined this question: but their opinions are mere conjectures, on which no positive doctrine can be grounded.

*Sir William Petty* thought that England required a quantity of money equal to half of the annual rent of her lands, to a fourth of the rent of dwelling-houses, to the weekly expences of the people, and to the value of a fourth of all commodities exported.

*D'Avenant*, who quotes the opinion of *Sir William Petty*, regards it as extremely well founded.\*

*Cantillon* thinks, that the money which circulates in the different countries of Europe is generally equal to at least half of the produce of the soil, and at the utmost to two thirds of that produce †.

*Montesquieu* thinks, that the quantity of money is pretty nearly indifferent, because the rising or sinking of its value proportionates it to all wants.

“ If we compare,” say this illustrious author, “ the mass of gold and silver which is in the world with the amount of existing merchandize, it is certain that every commodity or merchandize in particular may be

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\* On the Protection and Cares due to Trade, vol. i. page 440.

† *Essai sur la Nature du Commerce*, liv. ii. chap. 3.

compared to a certain portion of the whole mass of gold and silver. As the total amount of one is to the total amount of the other, so will be a portion of one to the portion of the other. Suppose there be but one commodity or merchandize in the world, or only one that is purchased, and that it be divided like metallic currency, that portion of merchandize will correspond to a portion of the metallic currency, half of the amount of one to half of the amount of the other, the tenth, the hundredth, the thousandth part of one to the tenth, the hundredth, the thousandth of the other : but as that which constitutes the property of men is not all at once in trade, and as the metals or coins which are the representatives of that property are neither in trade all at the same time, prices will be fixed in the compound ratio of the totality of commodities to the totality of representative coins, and of the totality of commodities actually in trade to the totality of the representative coins actually current ; and as commodities which are not in trade to-day may be so to-morrow, and as the coin which is not in circulation to-day may return to it to-morrow, the fixing of the price of things is always chiefly dependent on the proportion of the total amount of commodities to the total amount of representative coin." \*

Adam Smith has neither adopted nor combated any opinion on this point. He contents himself with observing, that " what is the proportion which the circulating money of any country bears to the whole

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\* *Esprit des Loix*, liv, xxii. chap. 7.

value of the annual produce circulated by means of it, it is, perhaps, impossible to determine. It has been computed by different authors at a fifth, at a tenth, at a twentieth, and at a thirtieth part of that value. But how small soever the proportion which the circulating money may bear to the whole value of the annual produce, as but a part, and frequently but a small part, of that produce, is ever destined for the maintenance of industry, it must always bear a very considerable proportion to that part." \*

From these various opinions it may be inferred with certainty, that the problem is not yet solved; and it ought perhaps to be considered as incapable of being solved, when we reflect that the circulation of commodities in an agricultural country is essentially different from that which takes place in a manufacturing country; that the circulation of a country which enjoys a great credit cannot be the same as that of a country whose credit is limited or circumscribed by the nature of its government or the imperfection of its legislation; and that a circulation mostly carried on with the assistance of well accredited banks has no resemblance to a circulation that derives no assistance from banks. So many circumstances and combinations, and relations so various, render the task of searching for a conjectural, probable, or barely possible proportion unnecessary, and we ought to imitate in this respect the prudent circumspection of Adam Smith.

But what are we to think of the "very consider-

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\* *Wealth of Nations*; London, 1805; vol. i. pages 454, 455.



able proportion" which Adam Smith supposes the amount of money must always bear to that part of the produce which is destined for the maintenance of industry? Is it true, that industry is benefited by the abundance of money and injured by its scarcity? and ought any particular attention to be paid to the complaints of people about the scarcity of money?

The extract which I have given from the work of Adam Smith, appears to authorize this opinion. But how is it to be reconciled with what he states in other parts of his work concerning the scarcity or plenty of money? On this important subject he expresses himself thus :

" No complaint is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it.—This complaint, however, of the scarcity of money is not always confined to improvident spendthrifts : it is sometimes general through a whole mercantile town, and the country in its neighbourhood. Over-trading is the common cause of it. Sober men, whose projects have been disproportioned to their capitals, are as likely to have neither wherewithal to buy money, nor credit to borrow it, as prodigals whose expence has been disproportioned to their revenue. Before their projects can be brought to bear, their stock is gone, and their credit with it. They run about every-where to borrow money, and every-body tells them that they have none to lend. Even such general complaints of the scarcity of money do not always prove that the usual number of gold and silver pieces are not circulating in

the country, but that many people want those pieces who have nothing to give for them. When the profits of trade happen to be greater than ordinary, over-trading becomes a general error both among great and small dealers. They do not always send more money abroad than usual; but they buy upon credit, both at home and abroad, an unusual quantity of goods, which they send to some distant market, in hopes that the returns will come in before the demand for payment. The demand comes before the returns, and they have nothing at hand with which they can either purchase money, or give solid security for borrowing. It is not any scarcity of gold and silver, but the difficulty which such people find in borrowing, and which their creditors find in getting payment, that occasions the general complaint of the scarcity of money.—To attempt to increase the wealth of any country, either by introducing or by detaining in it an unnecessary quantity of gold and silver, is as absurd as it would be to attempt to increase the good cheer of private families by obliging them to keep an unnecessary number of kitchen-utensils.—It is not by the importation of gold and silver that the discovery of America has enriched Europe. By the abundance of the American mines, those metals have become cheaper. A service of plate can now be purchased for about a third part of the corn, or a third part of the labour which it would have cost in the fifteenth century. So far Europe has, no doubt, gained a real conveniency, though surely a very trifling one. The cheapness of gold and silver renders those metals rather less fit for the purposes of money than they

were before. In order to make the same purchases, we must load ourselves with a greater quantity of them, and carry about a shilling in our pocket, where a groat would have done before. It is difficult to say which is most trifling, this inconveniency or the opposite conveniency. Neither the one nor the other could have made any very essential change in the state of Europe." \*

Elsewhere Adam Smith states, that " the greater part of the writers who have collected the money-prices of things in ancient times, seem to have considered the low money-price of corn, and of goods in general, or, in other words, the high value of gold and silver, as a proof not only of the scarcity of those metals, but of the poverty and barbarism of the country at the time when it took place. This notion is connected with the system of political economy, which represents national wealth as consisting in the abundance, and national poverty in the scarcity of gold and silver. I shall only observe, that the high value of the precious metals can be no proof of the the poverty or barbarism of any particular country at the time when it took place. It is a proof only of the barrenness of the mines which happened at that time to supply the commercial world. A poor country, as it cannot afford to buy more, so it can as little afford to pay dearer for gold and silver than a rich one; and the value of those metals, therefore, is not likely to be higher in the former than in the latter. In China, a country much richer than any part

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\* Wealth of Nations, vol. ii. pages 159, 160, 164, 176, 177.



of Europe, the value of the precious metals is much higher than in any part of Europe. As the wealth of Europe, indeed, has increased greatly since the discovery of the mines of America; so the value of gold and silver has gradually diminished. This diminution of their value, however, has not been owing to the increase of the real wealth of Europe, of the annual produce of its land and labour, but to the accidental discovery of more abundant mines than any that were known before. The increase of the quantity of gold and silver in Europe, and the increase of its manufactures and agriculture, are two events which, though they have happened nearly about the same time, yet have arisen from very different causes, and have scarcely any natural connection with one another. The one has arisen from a mere accident, in which neither prudence nor policy either had or could have any share; the other from the fall of the feudal system, and from the establishment of a government which afforded to industry the only encouragement which it requires, some tolerable security that it shall enjoy the fruits of its own labour. Poland, where the feudal system still continues to take place, is at this day as beggarly a country as it was before the discovery of America. The money-price of corn, however, has risen; the real value of the precious metals has fallen in Poland in the same manner as in other parts of Europe. Their quantity, therefore, must have increased there as in other places, and nearly in the same proportion to the annual produce of its land and labour. The increase of the quantity of those metals, however, has not, it seems, increased that of the

annual produce ; it has neither improved the manufactures and agriculture of the country, nor mended the circumstances of its inhabitants. Spain and Portugal, the countries which possess the mines, are, after Poland, perhaps, the two most beggarly countries in Europe. The value of the precious metals, however, must be lower in Spain and Portugal, than in any other part of Europe, as they come from those countries to all other parts of Europe, loaded, not only with a freight and an insurance, but with the expence of smuggling ; their exportation being either prohibited or subjected to a duty. In proportion to the annual produce of the land and labour, therefore, their quantity must be greater in those countries than in any other part of Europe ; those countries, however, are poorer than the greater part of Europe. Though the feudal system has been abolished in Spain and Portugal, it has not been succeeded by a much better. As the low value of gold and silver, therefore, is no proof of the wealth and flourishing state of the country where it takes place ; so neither is their high value, or the low money-price, either of goods in general, or of corn in particular, any proof of its poverty and barbarism." \*

I have connected and brought under one point of view the scattered parts of the doctrine of Adam Smith concerning the plenty or scarcity of gold and silver, their proportion to labour and industry, and their co-operation in the progress of public and private wealth, in order to view at once all the arguments by

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\* Wealth of Nations, vol. i. pages 387, 388, 389.

which he supports his opinions, and to compare them with the motives that induce me to doubt the accuracy of his doctrine.

And to rivet the attention of the reader to this subject, I must add, that the truth of the system of political economy of Adam Smith rests mostly upon the truth or fallacy of this particular doctrine, and that if they do not support, they necessarily destroy each other.

His system indeed is this.—If the natural order of things had not been deranged by the combinations of governments, wealth would have been indebted for its first elements to agriculture; the industry of the towns would have arisen from the accumulation of the agricultural produce; the home-trade would have derived its first capitals from the surplus stock of the produce of agriculture and manufactures; and afterwards foreign trade would have grown out of the superabundance of the home-trade.

According to this system, gold and silver, which in countries that have no mines can only be obtained by foreign trade, are quite useless to the formation, progress, and increase of wealth; and Adam Smith could not but consider their plenty or scarcity as indifferent in themselves, and as destitute of any influence upon the wealth of modern nations.

But whereupon does this system rest? Where are its proofs? and how can we suppose, that a country may prosper, flourish, and grow wealthy, without the assistance of gold and silver converted into money? Adam Smith appears perfectly convinced, that their plenty or scarcity are of no importance to wealth;



but he did not go so far as to say that they were of no utility, and that nations might grow rich without their assistance. It is however difficult to separate the two ideas; and if it were clearly demonstrated, that nations cannot arrive at wealth but by means of gold and silver, it could not easily be supposed that their plenty or scarcity has no influence upon wealth. Let us therefore first inquire, whether the wealth of nations is entirely independent of gold and silver, or how far it depends upon these metals?

Before gold or silver coin is introduced in any country, exchanges are made in material commodities, but not beyond the place where they are produced. The surplus of agricultural produce is carried to the next town, and the produce of the industry of the town is consumed in the neighbouring hamlets or villages.

The home-trade does not go beyond each town and its district; it has neither motives nor means to leave this narrow sphere, to look at a distance for a more advantageous sale of its commodities, and of course it never exceeds the ordinary wants of the country. In such a state of things desires are confined within wants, and to labour to satisfy them is the limit of the efforts and ambition of all.\*

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\* Three things, says *Genovesi*, have led mankind to commerce; the natural love of self-preservation, the desire of the conveniencies of life and wealth, and the pleasures of luxury. The first produces but a rare and scanty commerce, because necessities are generally furnished by the country, and foreign countries contribute very little to the supply of wants of that kind. The second produces a little more commerce, because the number and variety of conveniencies are great, and cannot all be produced by the same soil,

Should people even succeed in creating a local money of the nature of those enumerated by Adam Smith†, such money would not impart great activity to the circulation of productions, and would not extend commercial relations very far. Brittle or perishable, of difficult or expensive conveyance, destitute of any particular or general attraction, it would be little sought for, and could content neither individual avarice nor national ambition. Consequently it would leave things in the state in which they were before its existence, and it is difficult to conceive how they could be mended with its assistance.

This theory is fully confirmed by history. The hordes and tribes of savages discovered in the interior of Africa and in some parts of Asia and America, that were destitute of gold and silver coins, though they had other money, were yet plunged into extreme indigence and misery, and all accounts of travels and voyages afford scarcely a single exception to this general fact.

But no sooner are gold and silver introduced in any country, than the wish of possessing them excites the desires of the inhabitants, sets labour, industry and commerce in motion, and developes the energies,

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The third is the cause of an infinite commerce, because pleasures and luxury have no end.

The internal trade, or circulation, (says *Mengotti* in his *Essay on the Commerce of the Romans*, which was crowned by the Academy of Sciences at Paris in 1789,) must have been slow and extremely languid without the impulse of gold and silver coin, which is the soul of industry and commerce.

† *Wealth of Nations*, vol. i. book i, chap. 4.

faculties, and talents of every individual member of the nation. The incorruptibility of the finer metals, their divisibility, the facility with which they may be kept and concealed from all eyes, or displayed and conveyed any where, with the certainty of procuring by their means any desirable commodity or enjoyment, cause them to be sought for; and the desires which they inspire are unlimited, because imagination magnifies the gratifications which gold and silver are able to purchase.

It therefore appears certain, that gold and silver are necessary to the formation of wealth, and that without them wealth cannot possibly exist.\*

Their necessity being thus demonstrated, it follows evidently that their plenty or scarcity cannot be indifferent to the progress of wealth. Their scarcity causes them to be hoarded, concentrated among a small number of individuals, and renders them as it were strangers to the generality of the people. To the classes that cannot partake of them it is as if they were not; they have of course no influence upon their labour, industry, and talents. Some one has observed, very justly in my opinion, that the first guinea is more difficult to earn than the second million; and I think I am not mistaken, when I add, that the difficulty of

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\* Money, in a word, is the most universal incitement, iron the most powerful instrument of human industry; and it is very difficult to conceive by what means a people, neither actuated by the one, nor seconded by the other, could emerge from the grossest barbarism. — *Gibbon's Decline and Fall of the Roman Empire*, chap. ix.



earning the first guinea is the greatest obstacle that can be thrown in the way of labour, industry, and commerce. As little as diamonds and precious stones, the trappings of opulence, have ever tempted the ambition of the labouring and industrious classes, or increased the labour and industry of any people, as little would gold and silver, reserved exclusively for the rich, have any influence upon the labouring and industrious classes.

When, on the contrary, a gold and silver currency is so plentiful that, without being depreciated, it gets within the reach of any individual that chooses to labour, the most careless are stimulated by the desire of getting money, and all redouble their efforts to obtain a quantity equal or superior to what is possessed by their equals. Ornaments of gold and silver, the price of which is neither so low that any one might get them, nor so high as to be exclusively reserved for the rich, form one of the most powerful incitements to labour, because they gratify the vanity of the labouring classes. Every production of industry that is within the reach of the least favoured classes, partakes of this property of gold and silver, and it would not be beneath the care of an enlightened government to turn the efforts of industry to cheap commodities rather than to the expensive frivolities of opulence ; the progress of riches would be so much the more rapid, and national wealth would receive a new impulse from individual comforts,

We may, therefore, conclude, with some degree of certainty, that a gold and silver currency is the first and most powerful stimulus to labour, industry, and

wealth; that this stimulus is weaker in proportion as money is scarce and circulates less freely among the labouring classes\*, and stronger in proportion as money is plentiful and widely diffused among the labourers.†

But whatever importance I may assign to gold and silver, and although I am inclined to believe that their plenty has the greatest influence upon wealth; yet it would not be reasonable to infer, that wealth depends on the fecundity or sterility of gold and silver mines; and that those authors, who considered gold and silver as the only wealth, were not so very wrong. There is a great difference between the two systems; they do not approximate in any respect. According to one system, the precious metals are only means to acquire wealth; according to the other, they are the end, or wealth itself. Vain, therefore, would be the attempt to assimilate them, and to confound one with the other.

In vain does Adam Smith himself observe, “ that to attempt to increase the wealth of any country,

\* In every kingdom into which money begins to flow in greater abundance than formerly, every thing takes a new face: labour and industry gain life.—*Hume's Essays*; Edinb. 1804; vol. i. of money, page 303.

† That an increase of the circulating medium tends to afford temporary encouragement to industry, seems to be proved by the effects of the *Mississippi Scheme* in France; for it is affirmed by French writers, that the notes of Mr. *Law's* bank appeared for a time to have a very powerful influence in extending the demand for labour, and in augmenting the visible and *bonâ fide* property of the kingdom.—*Mr. Henry Thornton on Paper Credit*, page 263.—T.

either by introducing or detaining in it an unnecessary quantity of gold and silver; is as absurd as it would be to attempt to increase the good cheer of private families by obliging them to keep an unnecessary number of kitchen utensils."

The plenty of gold and silver which those wish for who are intimately convinced of their influence upon labour, industry, and commerce, does not extend to a quantity useless to commerce, but simply to the quantity that commerce can employ. One has nothing common with the other; or rather, the assertion is perfectly correct, that if at the first working of the mines of America, the abundance of gold and silver exceeded the wants of labour, industry, and commerce; if it sunk the value of those metals, and had no other effect than to employ a greater quantity of money for the same operations, this excess has long since ceased to exist. The labour, industry, and commerce of nations, have long ago opened so many channels for the precious metals, that they are no longer sufficient for their wants; and it is not unjustly that people complain of the scarcity of money, nor is it without a just cause that governments have resorted to divers measures to prevent the calamities attendant on the scarcity of gold and silver.

Not that, in imitation of some authors who are fascinated by the advantages resulting from the plenty of the precious metals, I imagine it can be obtained by prohibitions, privileges, and other not less disastrous measures: but I entirely concur with those who discover the source of this plenty in foreign commerce,



and who peculiarly recommend that commerce as one of the principal sources of the wealth of modern nations.\*

The example of Poland, Spain, and Portugal, which have not availed themselves of the plenty of gold and silver, and which remained poor in the midst of the prosperity of the other nations of Europe, can be of no weight here. Adam Smith himself ascribes the poverty of those countries to the vices of their governments. They prevented their sharing in the progress of the industry of other nations, which was so powerfully forwarded by the plenty of gold and silver. Their poverty, therefore, does not attest the inefficacy of gold and silver; it only shews how greatly those political writers and practical statesmen err, who fancy that a good economical system is not incompatible with a bad political system; and that a nation may grow rich in despite of the defects of its political institutions. The security of the labourer, the freedom of labour, and the protection of property, contribute more to the growth of wealth than the order, economy, and good use of the stocks which it accumulates. The best governed nation will always be the richest; just as plenty of gold and silver always will be one of the most powerful means of accelerating the progress of labour and industry.

And let it not be supposed that, according to this system, if the gold and silver mines ceased to be productive, general wealth would be arrested in its pro-

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\* *D'Avenant, Steuart, Count Verri, &c.*

gress, or, at least, that wealth could not be progressive in one nation without retrograding in the others.

As soon as a metallic currency has given the impulse to general labour, its scarcity may be remedied by credit and banks, and its plenty maintained among the labouring classes ; so that it may constantly afford a new aliment to their emulation, activity, and industry. These means are another benefit for which wealth is indebted to the plenty of gold and silver, as I shall endeavour to shew in the following chapter.

Let us, therefore, conclude, that in whatever light we view the question of the plenty or scarcity of metallic currency, its plenty is indispensably necessary to the progress of wealth, and that governments ought to patronize and second, with all their might, whatever can carry the abundance of the precious metals to the highest pitch which it is capable of attaining.



## CHAP. IV.

### *Of Credit and Banks.*

CREDIT is to money what money is to the produce of labour when it is exchanged. Just as money supplies the place of one of the exchanged commodities, so credit supplies the place of money. The only difference between the two equivalents is, that the equivalent money is real and actual, and the equivalent credit is but temporary and grounded in confidence.

Money actually hands the exchangeable value ; credit only promises it. But to him who delivers his produce on credit, the promise of money has the same value as money, and this value in opinion, or imaginary value, maintains itself till the stipulated term of payment. If at that term the creditor pays the promised money, credit has not been a single instant without having the value of money, and has produced all its effects.

These effects are various.

The first is to operate the exchange of an existing produce for a produce which possibly may not exist at that time, and to procure an actual consumption on the faith of a future equivalent ; which circumstance facilitates and accelerates the consumption of commodities.

The second effect is to force him who consumes upon credit to labour in order to perform his promise ; which circumstance is favourable to industry, and increases the sum of produce.

The third effect is to circulate commodities without the assistance and intervention of gold and silver ; which circumstance restricts the use of the precious metals, and insures their plenty notwithstanding the unproductiveness of the mines or the unfavourableness of foreign commerce.

But these advantages derived from credit, and credit itself, exist only as far as money is of gold and silver, and as its monetary value is as nearly as possible equal to its exchangeable value. Any other money than that of gold and silver, of whatever materials it may be composed, whether it consists in cattle, in agricultural produce, in the productions of industry,



or even in land, will always be liable to considerable chances, to which neither creditors nor debtors will be willing to expose themselves, whatever may be the measures adopted to give it a monetary value exactly proportioned to its exchangeable value. Cattle, corn, wine, hides, cloth, or any of the productions of the labour of man, vary much in themselves. A quarter of corn may vary from one year to the other a third, a half, or even be worth double; without experiencing any extraordinary fluctuation, the mere difference of quality may within the same place increase or diminish its value by a fifth, or a sixth; the case is the same with wine, cattle, &c.; consequently the result of such a money would almost always be that the debtor would pay more or less than he has promised, or than he owes. Credit of course would not be equal to money, and consequently there could be no credit.

I am not alluding to the other advantages of a gold and silver currency over any other money, such as its incorruptibility, divisibility, homogeneity, facility of being conveyed to a distance, and every-where converted at will in any kind of merchandize; these properties must give it the preference before any other money; and it is my opinion that any other than a gold and silver currency is radically defective, and opposes an insurmountable obstacle to the progress of wealth, for the sole reason that with such a money there can be no credit, because the lender would not be sure to receive back the same value which he has lent.

The case is the same when a gold and silver currency is altered in its standard and weight, and its

monetary value does not come up as near as possible to its exchangeable value. Credit, of which money is the basis, is more or less impaired by such an alteration, and frequently receives a mortal blow. Thus credit is intimately connected with a gold and silver currency, and cannot exist but through such a currency.

But what ought to be the proportion of credit to a gold and silver currency?

I believe that, on this head, there are none but peculiar, local, and accidental data, which it is almost impossible to generalize. We shall hereafter investigate whatever is known on the subject.

There are three sorts of credit; commercial, private, and public credit. Their nature, their object, and their end, are not the same; and it is evidently through mistake that they have been confounded and assimilated.

Commercial credit must have taken place the instant when the labourer, the primitive producer of a production, was enabled by his savings to wait, for the wages of his labour, or the price of his produce, till the end of the week, of the fortnight, of a month, of three months, of six months, or a year.

By affording this facility to the undertaker, the labourer enabled him to sell his articles to the merchant or wholesale dealer without requesting immediate payment in money.

The merchant, in his turn, was enabled to grant the same indulgence to the retail dealer.

And the retail dealer could grant the same favour to the consumer.

So that, on the very first outset, or from the first effort of commercial credit, commodities were pro-

duced ; they ran the whole career of circulation and were even consumed without the assistance and use of a single piece of coin.

Were this the only advantage afforded by commercial credit, it would still deserve the highest consideration. The facility of consuming without handing an actual and present equivalent is one of the greatest encouragements that can possibly be given to production, and one of the most fruitful elements of wealth. It affords a just notion of the power of credit, and yet it is only its very first advantage and one of its least benefits.

When the day of payment or term of credit arrived, the consumer was under the necessity of furnishing the promised monetary equivalent ; and this equivalent being carried from the retail dealer to the merchant, from the merchant to the undertaker of the manufacture, and from the manufacturer to the labourer, and being distributed among them in the proportion of their co-operation in the value of the produce, required the same quantity of money as if it had been paid in small payments at every partial formation of the produce, and during its circulation, before it reached the consumer. The only advantage of credit in this hypothesis was therefore reduced to delay the delivery of the monetary equivalent, which was, no doubt, a considerable advantage, as has been shewn just now ; but not to be compared with its other benefits and properties which time and circumstances have successively displayed.

The Jews, being creditors of considerable sums in several states of Europe, whence their blind cupidity



and the ignorance of governments had banished them, contrived to collect their debts by letters, addressed to their debtors; and the bearer of the letters acted as if he had become, and frequently was in reality, the owner of the demand. The debts were actually discharged at the delivery of the letters, and through this circumstance it was discovered that a creditor may transmit or make over his demand to another person, and by this transfer pay what he owes to his own creditor, or acquire the objects of his desire.

This discovery \* was a ray of light to trade; and from that instant metallic money became as it were a stranger in all purely commercial transactions. It is well known, that, materially considered, such transactions consist in forwarding the productions of the producers to the consumers; and it is easy to conceive that, after the invention of bills of exchange, commercial transactions required no longer the assistance and intervention of money †.

\* Bills of exchange, according to *De Pauw*, were used at Athens. *Gibbon*, in his *History of the Decline and Fall of the Roman Empire*, remarks, that bills of exchange were known among the Arabs. The *Abbé Raynal*, in his *Philosophical and Political History of both the Indies*, asserts that bills of exchange were used in the East Indies at the time the Portuguese arrived there. Whether the Arabs availed themselves of the discovery of the Athenians, and transmitted it to the Jews, and to the people of Hindostan, is a problem of history which I shall not attempt to resolve.

† *David Macpherson*, in his *Annals of Commerce*, vol. i. page 405, states that bills of exchange are mentioned for the first time in 1255. He says: "Though the excellent accommodation of remitting money by bills of exchange was probably known, long

Indeed, whenever a merchant received any quantity of produce from the farmer or manufacturer, he gave him a bill of exchange upon his debtor; and when he transferred any part of this produce to the retail dealer, he in turn obtained of him a bill of exchange;

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before this time, in Italy and all other countries in which there was any commerce; there is not, I believe, any express mention of them (so little attention did historians pay to matters of real utility and importance), till a very extraordinary and infamous occasion connected them with the political events of the age. The Pope, having a quarrel with Manfred, king of Sicily, had, in the plenitude of his power as sovereign of the world, offered the kingdom of Sicily and Apulia, on condition of driving Manfred out of it, to the brothers of the king of France, and, after their refusal, to Richard, earl of Cornwall, brother of King Henry III.; who said he might as well offer to make him king of the moon. At last he offered it to Henry for his second son, Edmund, who without hesitation accepted the fatal gift, and empowered the Pope to carry on his war against Manfred at the expence of England: whereupon he immediately took up large sums from the merchants of Italy. When they asked him for payment, he applied for the money to Henry, whose constant profusion made him for ever poor. While Henry was in terror of losing his son's visionary kingdom for want of money to feed the Pope's rapacity, Peter de Egeblanke, bishop of Hereford, told him, that he had hit upon an expedient to raise the sums wanted, which was, that the Italian merchants, who had advanced the money, being authorized by the King and the Pope, neither of whom had any reluctance to forward so honorable a business, should draw bills upon the English prelates for sums pretended to have been advanced to them by merchants of Sienna or Florence. This righteous plan was accordingly executed, and an agent was sent into England to receive payment of the bills."—Possibly the Jews were mere imitators of the merchants of Sienna or Florence.

so that bills of exchange supplied the place of money in all commercial transactions, and performed its functions much better. They avoided the charges attendant on the transport of money, the losses resulting from the risk of the conveyance, and the friction, falsification and alteration of the coin; they even afforded the means of extinguishing by compensation the reciprocal commercial debts between retail dealers and merchants of the same or of different places, of the same or of different countries; and it is obvious how greatly this facility must have increased the benefits of credit and the resources of trade.

The compensation of commercial debts, which was easily effected when two merchants of the same place had bills of exchange to the same amount on each other, became more difficult, when these bills were in the hands of different persons resident in different places or countries, it was then necessary that every individual who had a bill of exchange to pay, should provide himself with the money necessary to discharge that bill when due: and the quantity of money which this compensation, or rather this exchange of bills, would require, is obvious.

Two ways equally ingenious were contrived to effect this exchange without the assistance of money; both have been crowned with the same success. One is the setting off or compensating one debt against the other; and the other the banking system.

The first way, that of setting off, was successfully practised for a great length of time at Lyons. All bills were drawn payable at one of the fairs, which took



place every three months \*. Every merchant having sums to pay and to receive, and all being alternately debtors and creditors to each other, the actual exchange of the documents of their respective debts liberated them mutually without the assistance of money; or at least there was no occasion for any money, except for the settling of differences, which was a very trifling object, compared with the totality of the debts extinguished and paid.

This method was peculiarly adapted to the situation of Lyons, whether it be viewed as a manufacturing town, or as a place of great consumption.

As a manufacturing town, the active and passive debts of Lyons were all of the same kind; they were derived from the same source, followed the same track and arrived simultaneously at the same end. The passive debt was always contracted by the purchase of raw materials, and the active debt accrued by the sale of manufactured produce. A term of three months for the payment of the raw materials and the manufactured produce, was alike suitable to the merchants, whether they purchased raw materials or sold manufactured produce; it afforded them the time necessary to obtain by their sales wherewithal to pay for their purchases. The balance was always favourable, and the surplus discharged the wages of labour.

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\* This setting off is also known in London. The bankers send all bankers'-drafts daily to a common receptacle, where they are balanced against each other, and the difference is settled in bank-notes; which contrivance economizes the use of the circulating medium, and renders the same sum adequate to a much greater amount of trade and payments than formerly.

As a place of great consumption, Lyons supplied its wants with the wages of its labour, or the benefits of its balance of trade ; so that ultimately all its commercial transactions resolved themselves in a general compensation, and its merchants needed only to exchange the respective documents of their debts.

It is indeed difficult to imagine a method more simple, more easy, and more suitable in every respect to the situation of Lyons, than that of setting off, which for so great a length of time contributed to its splendour and prosperity : but it must be acknowledged, that this method could not be equally adapted to any manufacturing, commercial, or staple town, or to any place of great consumption ; and that it would not be crowned with the same success in every case and under any circumstances. For instance, it could not be introduced in a town whose industry is not homogeneous, whose transactions are not uniform, whose interests are not identic. There are no doubt in France and in the rest of Europe other manufacturing towns ; but the manufactures are not of the same kind, or not the only industry of the place. Some manufactures want longer, other shorter credits ; some branches of industry and trade are liable to more or less chances, which cannot always be reduced to a common term. In short, we might travel through all the commercial towns of France and of the rest of Europe, and perhaps not find one exactly similar to Lyons in every respect ; and yet the slightest difference would prevent the success of a measure which had such fortunate results in that celebrated town.

Whether it be owing to these considerations that

the measure has been attempted no-where else ; or whether banking has appeared, as it really is in every respect, preferable ; the latter method has generally prevailed, and seems indeed entitled to the preference, because it furnishes circulation with means constantly proportioned to the prosperity of agriculture and industry.

The first bank that ever existed in Europe is that of Venice.

The republic smarting under the burthen of a war with the emperor of the East in 1171, and being also engaged in hostilities with the emperor of the West, the doge or duke Michel II, after having exhausted all financial resources, recurred to a forced loan borrowed from the wealthiest citizens. The creditors formed a board, which received the interest from government at the rate of four per cent., and divided it among its members in proportion to their contribution. This board afterwards formed the bank of Venice\*, the principal operations of which consisted in paying all commercial bills of exchange.

In 1423, its revenue amounted to about £.200,000. sterling, and consisted chiefly in the interest paid by government. It is more than probable that it issued some paper-currency at that time for its operations. The fact, indeed, seems to be proved by the circumstance that a law was passed ordering that all payments of bills of exchange, which had been made in paper, should in future be effected in specie, under a

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\* *Sanuto*, Vite de Duche di Venezia, *Muratori Script.* vol. xxii. col. 502.



penalty of one hundred ducats, or forty-five pounds sterling.\*

Venice was at that time a manufacturing and staple town, and a place of great consumption.

The produce of its manufactures amounted to above twelve hundred thousand pounds sterling.

As a manufacturing town and a place of great consumption, it was the interest of Venice to economize the use of metallic money, the cost of which increased its expences and diminished its profits, and to supply its place by bank-paper.

As a staple-town, Venice wanted bank-paper for that portion of consigned commodities only which were appropriated to its consumption. With regard to the rest of the warehoused merchandize, which was

\* *Histoire de Venise*, par Laugier. The Abbé Laugier, in the fifth volume, page 532, after having related the death of *Thomas* (or *Tommuso*) *Mocenigo*, the fifty-eighth doge or duke of Venice, which happened in 1423, adds: “ *Thomas Mocenigo fit faire un règlement très essentiel pour la sureté du commerce. Le change s’étoit fait jusques là en papier, il fut réglé qu’on le feroit à l’avenir en argent comptant sous peine de cent ducats d’amende.*” This fact, as it strengthens the opinion of those who think that the convertibility of bank-notes into metallic money of proper weight and fineness, is the only way of keeping gold and silver in the country, is extremely remarkable. I have endeavoured to find a more ample statement of it in the old historians of Venice: but *M. Ant. Sabellico*, in his *Historia Rerum Venetarum ab urbe condita*, makes no mention of the fact; and *Lod. Ant. Muratori*, in his *Annali d’Italia*, second edition, Milan, 1753, vol. xiii, page 80, simply says: “ *Curiosissime sono le aringhe di questo doge, rapportate dal Sanuto, perchè ci fan tra l’altre cose vedere qual fosse allora l’opulenza dell’ inclita città di Venezia.*” Yet *Sanuto*, in his *Vitæ Ducum Venetorum Italicè scriptæ apud Muratori*, *Rerum*

to be conveyed to strangers, and which left only a commission to the Venitian merchants, the use of metallic currency was very immaterial, because the finding of the sums thus employed fell upon the foreign consumers. But as consumption is stimulated by cheapness and impeded by dearness, it was the interest of Venice, even as a staple-town, to economize the use of coin, because its cost was a dead loss to the consumer, and obstructed consumption.

Thus in the triple capacity of a manufacturing town, of a staple-town, and of a place of great consumption, it was the interest of Venice, that its commercial payments should be made in bank-paper.

But the wars in which the government of Venice was engaged with the Albanese and the dukes of Milan, occasioned considerable expences which could not be discharged otherwise than in metallic money. Commerce had not made sufficient progress, its resources were not sufficiently extensive, to relieve the wants of government and economize its expences; and as government considered payments in bank-paper as causing coin to disappear from circulation, or at least of rendering it more scarce, and making government purchase it at a higher price, it thought it had attained its end by ordering payments to be made in specie. Thus the interests of commerce often appear in opposition to the well or ill understood interests of government, and are sacrificed to it without any scruple\*.

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*Italicarum Scriptores*, vol. xxii. col. 885. and seq. does not allude to the aforementioned circumstance.—T.

\* In this case the interest of government was the interest of the country, to which the interests of commerce ought always to be

Whether this measure of the government of Venice induced the bank to cease paying in bank paper and to make its payments by transfers in its books, I do not know. But, according to Macpherson\*, the payments of the bank of Venice are made by mere transfers in its books.

The bank of Genoa, which was founded in 1407, and which owed its existence to the causes that had produced the bank of Venice, was formed upon the same model. †

The foreign and civil wars with which that republic was continually afflicted, forced its government to resort to loans bearing interest, the payment of which was provided for by certain demesnes, and the administration of these demesnes entrusted to a company of eight individuals chosen from among the state creditors. Their association constituted the Bank of St. George.

As the wants of the republic increased in proportion

sacrificed without any hesitation. The recommendation of the Report of the Bullion Committee to the House of Commons to compel the Bank of England to resume its payments in cash in a limited time, is, therefore, neither unprecedented, nor does it deserve the obloquy thrown upon it by Mr. John Hill and others.—T.

\* *Annals of Commerce*, vol. i. page 341.—Macpherson says: “The bank of Venice was established on such judicious principles, and has been conducted through the revolution of many centuries with such prudence, that, though the government have twice, since its establishment, made free with its funds, its credit has remained inviolate and unimpeached. Payments are made in it by transfers, or writing off the sum to be paid from the account of the payer to that of the receiver, without having the trouble of weighing gold or silver.”

† *Histoire de Gênes*, par *Foglietta*.



as its power declined, government continued to borrow of the Bank of St. George, and to assign a larger revenue to it; government even made over to the bank the property of several demésnes and important places, the administration of which was entrusted to a council of one hundred individuals, chosen among the holders of bank stock.

The historiographer of the republic of Genoa notices it as a circumstance worthy of admiration, that during the various changes to which the republic was exposed, and even when it passed under a foreign dominion, the government of the bank experienced no change: but what change could a banking company experience, that confined itself to manage the common stock, collect its revenue, and distribute it to the parties concerned? The utmost that could be apprehended was infidelity or negligence in the management; and even this danger was sufficiently removed by the interested superintendence of a council composed of one hundred individuals. What is most to be wondered at is, that the republic, in the midst of its distresses and political troubles, never touched the property of the bank. A proposal of that tendency was made after the bombardment of Genoa, in 1684: but it was rejected, because to touch the money of the bank appeared too dangerous. It would, indeed, have been extremely dangerous, since there is every reason to suppose that the greatest part of the nation were interested in the safety of the property of the bank.

Moreover, I have not been able to discover what were the relations of the bank of Genoa to commerce;

whether its transactions consisted in transfers in its books, or in payments in bank paper.

Confined to its primitive object of a chest, from which government might borrow, the Bank of St. George is an excellent institution for public credit; it were to be wished that it had been imitated by the great powers of Europe, when they had recourse to loans. With the assistance of such a bank they would have avoided that confusion in their finances, which always proved so fatal to public credit, so injurious to the honour of governments, and so detrimental to the prosperity of empires.

The bank of Amsterdam was established in 1609, on the model of that of Venice; and it must be acknowledged to have been well adapted to the situation of that city, similar in almost every respect to that of Venice.

Like Venice, Amsterdam was then a staple-town, a perpetual fair, a market constantly open for the exchange of the produce of all climes, and of the industry of all nations. The sales and purchases of the productions of all countries were reciprocally paid by the intervention of the Amsterdam merchants, and the particular commerce of each state had only the balance of its trade to receive or to pay.

Had the merchants of Amsterdam always traded on their own account, like those of Lyons, and had they been able to fix the same term to their engagements, they might, like the Lyonese, have carried on their trade by simply exchanging the documents of their respective debts, as Lyons did for its own private trade.

But the immense extent of the payments which the merchants of Amsterdam had to make, would not allow their being effected by reciprocal exchanges of debts and demands at certain fixed times. Payments must be made daily, because they were daily wanted; and, in this respect, the bank of Venice suited Amsterdam better than a liquidation by the exchange of debts and demands, as used at Lyons.

By the charter of its foundation, the bank of Amsterdam was authorized to receive the deposit of any sum of money above three hundred guilders; and to pay all bills of exchange exceeding that sum by transfers in its books. The sums deposited were declared safe against any attachment; the city of Amsterdam guaranteed their safety, and engaged to represent them. The amount of these deposits has been estimated very high by some authors, and rather low by others. D'Avenant estimated them to amount to thirty-six millions sterling\*; Adam Smith calculates them to amount only to about three millions sterling, or, at eleven guilders the pound sterling, thirty-three millions of guilders.†

Adam Smith was convinced, that the deposits in the bank of Amsterdam had been faithfully respected. But a modern English author pretends, that when the French took possession of Holland, it was discovered that the bank had lent part of its deposits to the city of Amsterdam, and to the ancient government of

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\* *New Dialogues*, 1710.

† *Wealth of Nations*, London, 1805. vol. ii. page 241.



Holland\*; but he does not quote the authority on which he grounds his assertion.

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\* *Henry Thornton's Inquiry into the Nature and Effects of the Paper Credit of England*, pages 64 and 309.—Mr. Thornton's statements are these: "The Bank of Amsterdam did not issue circulating notes, but was a mere bank for deposits, the whole of which it was supposed by some to keep always in specie. It was discovered, however, when the French possessed themselves of Holland, that it had been used privately to lend a certain part of them to the city of Amsterdam, and a part to the old Dutch government. Neither of the two debts, as I understand, have yet (1802) been discharged." And, although Mr. Thornton quotes no authority, the fact is well known. The late Professor, *J. G. Büsch* of Hamburg, in the first Appendix to his *Dissertation on Banks*, (which was republished after his death by his friend *Ebeling*, in 1801, under the title of *J. G. Büsch's Sämmtliche Schriften über Banken und Münzwesen*,) states, § 2, page 159: "This is proved by what happened to the Bank of Amsterdam in 1790, when it was discovered that it had lent more of its original treasure to the state and to the East-India Company, than it should have done." and, § 6, page 166, he expressly states, that the directors acknowledged the fact. *George Hassel*, in his *Statistical Account of the Kingdom of Holland*, (*Geographisch Statistischer Abriss des Königreichs Holland*, Weimar, 1809,) also says, page 65, speaking of the Bank of Amsterdam: "Its credit had lately been impaired: but the Directory of the Batavian Republic decreed a tax, on the 22d of June, 1802, for the purpose of remedying the deficit of the bank; by which means the bank money, which was at a discount of two per cent, bore again a premium of  $4\frac{1}{4}$  per cent in the end of the same month." These two authorities sufficiently vindicate Mr. Thornton's assertion, and, as I trust, the liberality of the French author will induce him to omit, in a second edition, the concluding sentence of his paragraph, which runs thus: "Mais il ne cite point l'autorité sur laquelle il fonde son assertion; de sorte qu'il est prudent de ne pas y croire." I have left it untranslated.—T.

The bank of Rotterdam, created in 1635, was also founded upon the model of that of Amsterdam.

So was the bank of Hamburgh in 1688.

In short, until the foundation of the Bank of England, all the banks, created after that of Venice, were deposit-banks, which effected the payments of those who had deposits with them, by transfers on their books; and of course rendered no other service to commerce than to avoid the charges of transport, to guard against errors in calculation and base coin, and to save the time which paying in metallic money requires.

By means of a blank cheque, with which the merchants of Amsterdam are furnished by the bank, and on which they write the sums which they wish to transfer, they may, without moving, pay more in one hour than they could do in a day, if they were obliged to pay in specie.

These advantages of banks must, no doubt, have recommended them to the attention of the merchants and governments of all countries; and it appears unaccountable that such banks were not established every where, in proportion as nations made any progress in commerce. It is as if nations were placed near each other merely to injure and destroy each other, and never to profit by their respective knowledge and discoveries; never to assist and help each other. They are not aware that the communication of knowledge and useful discoveries and the interchange of their produce would increase the mass of that produce, multiply their means of wealth in proportion to their respective labour, and afford them advantages which are not to be

found in their systems of exclusions and prohibitions, or in their mutual monopolies and hostilities.

Notwithstanding her extensive home and foreign trade ; in spite of her efforts to pursue the career of wealth, which the Dutch so successfully followed, and even to exclude them from that career ; and notwithstanding her extreme attention to appropriate to herself every measure useful to commerce, England witnessed for near a century the success of the bank of Amsterdam without being sensible of its advantages, without being tempted to share them, and even without suspecting their existence.

It was the stadtholder of Holland, William III, to whom England entrusted her government, that first made her sensible of the importance and utility of a bank ; and yet it was only after a very considerable time that his knowledge, his influence, and the convincing authority of experience, could naturalize such a banking establishment on a soil where it has so much prospered, and where it exhibits this very day one of the most extraordinary phenomena of commercial credit.

Many causes may be assigned for this inconceivable tardiness, as many causes account for the subsequent prodigious success of the Bank of England.

The Bank of England lost its way on its very outset. Instead of devoting itself to the commercial credit of which the banks of Amsterdam and Hamburgh had so ably laid the foundation, it endeavoured to revive public credit, and lent government the money which its shares had produced. The first operation of the bank confounded the commercial with the public



credit, though they are essentially different ; as will be seen hereafter. This confusion caused the bank to languish for sixteen years. Its credit experienced the fate of public credit, its notes were at a discount of 20 per cent., and it was only through the constant protection of parliament and through a very uncommon perseverance, that the Bank of England was finally established on a solid foundation.

The charter of the bank made it a corporation, and granted it the exclusive privilege of banking as a joint-stock company. Subsequent statutes allowed the bank to lend money on pledges, and to deal in gold and silver bullion.

These grants shew, that the founders of the bank and the parliament of England had not very correct notions of the nature and object of banks of circulation ; and this becomes evident, when we consider that the bank, even when it was in the greatest distress, advanced to government all the money it could procure, either by creating new shares, or through private loans. In its commencement the bank was, and could not be considered otherwise than, a chest for government to borrow from, or a lombard (lumber-office) totally unconnected with commercial credit.

But if the bank mistook at first the career which it had to run with so much glory, it was not long ere it discovered its error, and wisely promoted the object which it was to accomplish. Without ceasing to be faithful to its engagements with the public creditor, from which it could not separate itself on account of the sums advanced to government, the bank leaned

more towards commercial credit, and perceived that all its efforts ought to be directed to circulate commercial bills without the intervention of metallic money.

It was a difficult problem for the bank to solve, since it could only offer its own credit guaranteed by the capitals which it had in the public funds ; a guarantee already discredited in public opinion by the discredit of the funds, and perfectly novel and unknown in money concerns. The banks that had preceded the Bank of England, had all effected their payments in real coin, equal and even superior to the standard of the common metallic currency. How should the bank be able to deviate from the customary method which had become a generally adopted rule ? This consideration did not stop the bank-directors. They dared to open a new path ; they created bank-notes convertible into specie at the pleasure of the holder, and used them in all their payments. The promise to pay in coin at the pleasure of the holder was obviously and notoriously illusory ; and both the bank and the public knew perfectly well that it could not be realized : for there was not, and there could not be, any other coin in the coffers of the bank but what was received as interest of the public debt, and its amount bore no proportion to its notes.

Bank-notes were however received in circulation, and though at a discount for a considerable length of time, they yet recovered their value in proportion as the services which they rendered to circulation became better known, as their nature was better appreciated, and the circumstance clearly understood that the basis of their credit rested less on the primitive capital

of the bank than on the equivalent commercial bills of which they effected the payment. Thus the Bank of England notes owed their success to the same principles which cause the commercial credit of all countries to prosper and flourish ; that is, to an entire confidence in the good faith and probity of the individuals engaged in commerce.

The successful attempt of the Bank of England led to the discovery of one of the properties of banks, which had not yet been and which could not have been suspected as long as banks had made use in their operations of real coin of a standard superior to the common metallic currency. Till that time it had been, and must have been, supposed that the services and successes of banks were due to their monied capitals. On a more close inspection, however, it would have been perceived that those capitals bore no proportion to the operations of banks, and that the ability, good faith, and fidelity of the directors and agents of such banks, are their true support in both cases : it would have been seen that bank-money is but an instrument to liquidate commercial debts, and that of course it matters little whether it be of gold and silver or of paper.

It has already been observed, that the transfers of the money deposited in the bank of Amsterdam liquidated, without displacing any money, the totality of the commercial transactions of that city, and that by means of these transfers as many payments were effected in one hour as could be performed in metallic currency in one day. I ought to add, that the rapidity of this mode of payment required a smaller quantity



of money than any other method would have required ; and it is probable that, with the deposit of a single million, as many payments were effected as with twenty millions in metallic currency. This singular phenomenon could undoubtedly not be attributed to money only ; it was owing to other causes ; and that such was the fact could no longer be doubted, when it was perceived that the notes of the Bank of England produced the same effects as the transfers of the Bank of Amsterdam.

These causes deserve careful investigation.

At the foundation of the Bank of England, London was but a manufacturing town, and a place of great consumption. Though a sea-port town, and enjoying a very extensive maritime commerce, it had not yet risen to the rank of a staple-town, that is, it had no share in the exchanges of general commerce.

As a manufacturing town, London was a creditor for the whole amount of the produce of its industry disposed of in the home or foreign trade.

As a place of great consumption, London was a debtor for the amount of all the commodities bought in the home-market, or imported from foreign countries.

The produce sold gave to the London merchants bills of exchange on the towns of the interior or upon foreign countries, and the commodities imported or purchased at home gave to those places bills upon London.

Had these bills, which made London alternately a debtor and a creditor, been drawn and become due at the same time, the method of Lyons would have com-

pensated the debts and demands by simply exchanging the respective bills, and no coin would have been required but for common payments, and settling the differences.

But these bills of exchange were like those which Amsterdam and Hamburgh had to pay and compensate; they were payable at different dates; in order to be extinguished, they must necessarily be paid; and it mattered little of what nature the instrument of payment was, since he who received it in payment of a bill of exchange of which he was the holder, paid it again to the bearer of the bill of exchange of which he was the acceptor. The instrument lost its power only when the merchants of London held no more bills of exchange from the interior or from foreign countries, and there were yet bills of exchange drawn upon them unpaid. In that case the bank-notes could not discharge the debt, because they were not the actual money which can extinguish by payment a demand that cannot be extinguished by compensation.

Experience having once established this property of bank-paper, the Bank of England conformed its further operations to it, and employed it with equal success in liquidating and extinguishing commercial demands by the debts of commerce, public expences by the public revenue, and a great part of private expences by a great portion of private income. In short, with the help of its notes, the Bank of England liquidated all the commercial transactions of the London merchants at home and abroad; all the engagements of government with its functionaries, agents, and contractors; and all the transactions of

opulent private individuals with their tradesmen, servants, and labourers.

Mr. Henry Thornton gives the same account of the operations of the Bank of England.

“Bills of exchange,” says this author, who is extremely well acquainted with the paper circulation of England, “are drawn upon London from every quarter of the kingdom, and remittances are sent to the metropolis to provide for them, while London draws no bills or next to none upon the country, London is in this respect to the whole island in some degree what the centre of a city is to the suburbs. The traders may dwell in the suburbs; and lodge many goods there, and they carry on at home a variety of smaller payments, while their chief cash account is with the banker, who fixes his residence among the other bankers in the heart of the city. London is also become, especially of late, the trading metropolis of Europe, and indeed of the whole world; the foreign drafts on account of merchants living in the out-ports and other trading towns, and carrying on business there, being made, with scarcely any exceptions, payable in London. The metropolis, moreover, through the extent of its own commerce and the greatness of its wealth and population, has immense receipts and payments on its own account, and the circumstance of its being the seat of government and the place where the public dividends are paid, serves to increase its pecuniary transactions. The practice indeed of transferring the payments of the country to London being once begun, was likely to extend itself; for in proportion as the amount and number of pay-



ments and receipts is augmented in any one particular place, the business of paying and receiving is more easily and cheaply transacted, the necessary guineas becoming fewer in proportion to the sums to be received and paid, and the bank-notes wanted, though increasing on the whole, becoming fewer in proportion also." \*

This enumeration of payments made and received in London in bank-notes shews, that they derive from the sources I have stated, and result either from London being a staple-town, from its having manufactures, or from its consumption; and that all these demands of London upon the inland country or foreign countries to be extinguished and compensated require only to be exchanged one against the other: this exchange is effected by bank-notes in the most simple, most rapid, and least expensive way. The bank-notes with which the bills due by English merchants to foreigners for their importations are discounted, are immediately employed by foreigners to pay what they owe to England on account of the goods exported, and the bank-notes are returned to the bank by those who have to pay these bills. So that this circulation of bank-notes against inland and foreign bills is nothing, in fact, but a mere and simple interchange of respective demands.

The same operation takes place with regard to the demands of London upon the provinces and of the provinces upon London. The notes which the bank-directors

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\* *Henry Thornton's Inquiry into the Nature of Paper Credit*, page 52.

give for those different bills make them owners of the bills, and the acceptors of them repay the bank its notes when the bills become due. So that, in this second operation, as in the first, bank-notes are merely an instrument for exchanging and liquidating commercial demands.

Viewed in this light, and confined exclusively to this function, bank-notes want no funds for their guarantee; they carry with them the most efficacious guarantee that can be desired. The bills of exchange for which they are given, must always bring them back to the bank; and if on some rare occasion, the holder of the bank-notes should wish to convert them into coin before the bills become due, the payment of the bills soon restores the value of the notes to the bank; whence it follows, that banks, limited to the liquidation of commercial debts and demands, require little or no capital stock.

There are, however, three cases in which bank-notes, though sufficiently guaranteed by the bills for which they have been exchanged, may fall into actual discredit, be thrown out of circulation, and endanger the existence of banks and the true interests of the nation.

The first is, when the debts due by the home-merchants to foreigners are more considerable than the debts due by foreigners to the national commerce. It is obvious that, in this case, after the reciprocal debts and demands have been compensated, the surplus must be paid in specie by the bank, which had given its notes for the bills drawn for this surplus. When the discounted bills become due, the bank, it is true,

is repaid its advances to foreigners: yet the necessity of making these advances, obliges it to keep in its coffers a stock of metallic currency proportioned to their amount. Should the country be greatly indebted to foreigners, it may even happen that whatever may be the magnitude of the stock of coin reserved for this purpose, it may yet prove insufficient; in that case, the bank is forced to suspend its payments, and can no longer fulfill its destination.

If it be observed, that such a misfortune is not owing to the institution of banks, but to the disproportion of national industry to the need of or predilection for the produce of foreign industry, and to the ignorance or impotence of government in correcting this disorder and proportioning the expences of the state to its revenue; I say, the observation is but specious. It is certain, that banks facilitate by their notes the circulation of both foreign and national produce, by accelerating its consumption and liquidating its value. If merchants had not the facility of getting their bills of exchange discounted in bank-notes, if they were always obliged to keep in their coffers the coin necessary to take up the bills they accept, they would be more reserved in their speculations, and the circulation of foreign commodities would be less active and more expensive; their price would rise and the consumption diminish, and consequently the state would be a sufferer by such a commerce. It is therefore the interest of commercial banks, and the duty of governments, to pay the greatest attention to the vibrations of the balance of trade, which is the crite-



tion of their success and prosperity, or of their decline and ruin.

The second case takes place when political events occasion uneasiness about futurity, and cause extraordinary exigencies or embarrassments in public affairs to be apprehended: in that case, the holders of bank-notes hasten to exchange them for coin; those who are indebted to the bank, pay badly or with difficulty; and if the crisis lasts, the bank is obliged to pay all its notes in specie, and risks to recover only part of its demands; it is therefore forced to violate its engagements, to suspend its payments, and to wait for the return of confidence and credit.

Finally, banks of circulation have to fear lest the merchants, whose bills they discount, should abuse their facility for the purpose of extending their speculations beyond due bounds, and pile in their warehouses a larger stock of commodities than what ordinary consumption requires. The longer or shorter continuance of such a glut may force the merchants to exchange the bank-notes for coin in a proportion superior to what the banks receive. If a bank, in such a case, has not in its coffers a sufficient stock of metallic currency to meet such an exigency, its embarrassment aggravates the crisis, and it is again forced to suspend its payments, and to wait till the equilibrium between consumption and the stock on hand be re-established.

Against these dangers, which are but too often realized, and to which all banks of circulation have been more or less exposed, there is no effective remedy.

Palliatives afford but little or no relief. The only resource of a bank in such a case is to restrict the issue of its notes. But this measure increases the general distress, gives the alarm to commerce, and frequently accelerates the evil which it wishes to prevent. Mr. Henry Thornton remarks, that in that case the bank would even do better to give a greater latitude to its discounts, than to restrict the issue of its notes: but the advice does not appear very safe, and ought of course not be considered as convincing. Unfortunately, the discredit of banks of circulation, when it happens through any of the causes just stated, is as fatal as their credit was beneficial to commerce. It paralyses circulation, obstructs labour, carries disorder and desolation in every branch of industry and trade, and shakes social prosperity in its very foundation.

Notwithstanding these imminent and fatal risks, banks of circulation have been introduced into almost all countries of Europe, and their present advantages have got the better of distant fears.

England has, as it were exclusively, entrusted them with the circulation of all the values of her labour, her industry, her trade, her private income, and public revenue. There are banks in large and small towns, in boroughs, and even in villages. In 1800, their number amounted to three-hundred and eighty-six\*; and all were in some degree ramifica-

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\* *Henry Thornton's Inquiry into the Nature and Effects of the Paper-Credit of England*, page 154.—But, in 1810, there were not less than eight hundred and eighteen private or country-banks in Great Britain. See an account of the number of licences for the

tions of the Bank of England, and served the latter as channels of communication with every part of the empire.

But a conjecture hazarded by Mr. Henry Thornton respecting the extent of the payments effected every day by the London banks, from sixty to seventy in number, deserves particular attention. He calculates them at the enormous sum of from four to five millions sterling a day ; which, reckoning only four millions for three-hundred and ten days, gives one thousand two hundred and forty millions a year. And what appears not less wonderful is, that this immense circulation is effected with twelve or thirteen millions sterling in coin, or bank-notes, which supply its place \*.

What an astonishingly rapid circulation ! What an economy in the cost of circulation ; and what an immense benefit to the nation which created, and knew how to avail itself of this advantage !

Several distinguished writers, among whom David Hume holds the first rank, are of opinion, that such a considerable issue of paper-currency has the same

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issue of promissory notes payable on demand, delivered to the House of Lords by the Stamp Office, July 4th, 1811.—T.

\* The number of London bankers, on the first of February, 1812, was exactly seventy ; the circulation of Bank of England notes amounted, in 1810, to twenty-three millions sterling ; and the total circulation of Great Britain, including the private bankers' notes, to fifty-six millions, to which may be added about four millions in specie. See the very able speech of Mr. G. Johnstone, delivered in the House of Commons on the 19th of July, 1811.



effect as the introduction of a large quantity of gold and silver; that it must necessarily depreciate, raise the price of labour and merchandize, and be detrimental to the sale of national produce abroad and at home.

Hume observes, that the high price of commodities occasioned by the abundance of gold and silver is a disadvantage for an established commerce, and restricts it every-where by enabling poor nations to sell cheaper than the rich ones\*.

Mr. Henry Thornton observes, with as much sagacity as justness, that the issue of a paper-currency, like the introduction of a great quantity of gold and silver, does not raise the price of labour and commodities in one country only, but the effect, when it takes place, is general and extends to all countries. Indeed, a paper-currency drives gold and silver out of circulation, and causes the metallic currency to be exported. This exportation augments the quantity of the precious metals wheresoever they are carried, sinks their value, and of course raises the price of labour and commodities. Consequently, it is not only in the country in which a paper-currency is issued, that the price of labour and its produce rises; the rise is general, and of course detrimental to none or hurtful to all countries†.

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\* *Hume's Essays*, Edinb. 1804; of the Balance of Trade, page 330.

† But if a comparatively small island exports twenty-five millions of its coin, and increases its paper-currency to fifty-six millions, how can the effect of twenty-five millions upon a whole continent, be equal to that of thirty millions additional currency

These are the considerations which have hitherto been advanced on the system of banks of circulation. I have connected the subject with that of the Bank of England, because that establishment has been the model of such kinds of banks, and still serves them as a pattern and an example.

The theory of banks has never been well understood in France; a country so enlightened, which has made so great a progress in sciences, in arts, in every kind of knowledge, and which has almost always accelerated their improvement when it had not given them the impulse. At least, the knowledge of the banking system has never been sufficiently diffused in France, to dissipate the gloomy fears of ignorance, to protect the country against the deceitful illusions of improvidence, or to help her to overcome the obstacles connected with every new institution, and particularly with the establishment of banks, which comes in close contact with so many interests, and excites so many apprehensions and so much uneasiness in the minds of all.

But the surprise ceases when we reflect on the nature and spirit of the ancient government of France. Instead of encouraging and favouring the study of political economy, it considered itself interested in proscribing it, or in leaving its tenets unpractised, and, if I may be allowed the expression, lived from day to day, and either rejected all

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upon a country that counts no more than twelve or thirteen millions of inhabitants? It is the most convincing argument that a great local depreciation in such a case is unavoidable.—T.

innovations, or adopted them merely to abuse them, and to render them as fatal as they might have been useful, if they had been well directed.

In 1716, a bank of circulation was established at Paris on the plan and principles of the Bank of England. France was indebted for it to *Mr. Law*, a foreigner, a Scotchman whose name is but too famous in the annals of finance. This bank had every success that could be expected, as long as it was conducted according to the guardian and beneficial rules of banks of circulation.

But its nature was soon altered, and measures peculiar to commercial credit were applied to public and private credit. I have elsewhere explained this mistake and its dangerous results \*.

This mistake occasioned the ruin of the bank, and, what must appear very extraordinary, is that its beneficial effects, as long as it was confined to the operations of a bank of circulation, were completely forgotten. The bank was pronounced good for nothing, no doubt, because it was not found calculated for every use to which it had been attempted to be put.

Sixty years after, a merchant, whose knowledge of political economy I have heard greatly extolled, and whose talents for that reason were little employed †, succeeded by great exertions in establishing a discounting bank (*caisse d'escompte*) for the circulation of the commercial bills of Paris. The success of this bank exceeded his most sanguine expectations :

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\* *Essai Politique sur le Revenu Public.*

† *Mr. Panchaud.*



indeed it could not fail to be considerable at a time when the commerce of France with foreign nations afforded every year a balance of thirty or forty millions of French Livres; when Paris, the seat of a flourishing industry, the residence of a brilliant and magnificent court, of a numerous and opulent nobility, of a rich and sumptuous clergy, of an immense concourse of strangers eager in the pursuit of pleasure, and of several companies of financiers profusely lavishing their fortune: when Paris, I say, obtained, through its own private trade, as considerable a balance as that of the whole French trade with foreign countries. In such a state of things, it is difficult to conceive what reverses could have befallen a bank of circulation, the operations of which were limited to extinguish the debts and demands of the private trade of Paris.

But prompted by ignorance or weakness, or dazzled by its success, the discounting bank afforded public credit an useless assistance; and the being deprived of its capital stock brought upon it the fate reserved to all banks which fondly imagine they may combine commercial with public credit. The discounting bank was obliged to dissolve itself, and to swell the list of the creditors of the state.

In the sixth year of the French republic (1798—1799), after the calamities of the revolution, but before order was restored to the French finances, and in the midst of the general discredit, the bankers of Paris opened a bank of running or current accounts for their private wants, to assist each other reciprocally in their operations, and to enjoy by their asso-

ciation a credit and facilities which they could not have procured by any other means.

The example was soon followed. Some merchants of Paris established likewise a commercial bank to discount the bills of its share-holders.

The manufacturers, impelled by the same motives of personal interest, opened a bank to procure cash in cases of need.

Some speculators even established a land-bank to restore private credit, which had been entirely destroyed by a fatal paper-currency.

These heterogeneous establishments, different in their object and views, which performed but imperfectly the functions of banks of circulation, being founded upon a system of exclusion and limitation, restored however to circulation the active and productive movement which it had been deprived of for a great length of time; they recalled the nation to labour, industry, and those commercial speculations, which render modern nations flourishing and prosperous, establish order and peace among individuals, and ground the splendour and power of empires: though devoted to private interest only, they forwarded the interests of all.

Each of these banks experienced a different fate.

A defective administration, and the infidelity of one of its principal agents, shut up the bank of running or current accounts; no resource was left to commercial credit but in the commercial bank, and in the bank of the manufacturers, whose means were not very extensive.

In the eighth year of the French republic (1800—

1801), a joint-stock company established, under the protection of the consular government, a bank called *the Bank of France*, which comprised in its speculations the totality of the commerce of Paris.

The existence of a general bank and of two private banks guided by the same spirit and directed to the same end, was a singular and remarkable phenomenon in the system of banks of circulation.

They first moved one by the side of the other without injuring and apparently without troubling each other: but it was not long ere the nature of things and the force of human passions triumphed over disinterestedness and the love of public good. Each bank experienced the torments of competition; each saw with sorrow that the bank-notes of its rival were substituted for its own, and that its discounts were limited by those of its competitor; they discounted more readily, and sent each other their notes to get them exchanged in specie.

Hence, each bank was obliged to keep a more considerable stock of metallic currency at hand, that they might not be caught unprovided; hence originated mad speculations, and venturesome or badly devised undertakings, the bad success of which shook commercial credit and kept it in a precarious state.

The unbounded extension of discounts afforded also to the share-holders of these different banking establishments dividends so considerable, that it was difficult, not to say impossible, for the nation to lower the rate of interest and to attain a secure and lasting prosperity.

Considerations of this kind induced government to



suppress these different banking establishments, and to erect in their stead a general bank interested in the rise of public stocks.

I shall not enter upon the examination of these various measures ; the digression would carry me too far from my object. I shall only cast a rapid glance upon the operations which the bank of France published in the public journals, and point out their conformity or disagreement with the regulating and fostering principles of banks of circulation.

At that time, the bank of France had two kinds of capital stock ; the one disposable, which amounted to forty-five millions of French livres, arising from the sums advanced by its share-holders ; the other, vested in the public funds, and proceeding from successive reserves of its dividends, consisted of about six millions of French livres ; consequently, the whole capital stock of the bank amounted to fifty-one millions of French livres.

With this capital, the bank of France, in the thirteenth year of the French republic (1805—1806), discounted commercial bills of exchange amounting to six hundred thirty-three millions of French livres. As the discount was for bills drawn at sixty days, it was repeated six times a year, and consequently each occasioned the issue of bank notes to the amount of one hundred and five millions of French livres : but as, at the end of sixty days, the payment of the discounted bills of exchange restored its own notes or specie to the bank, it follows that the six annual discounts put no more bank-notes into circulation,

than to the amount of one hundred and five millions of French livres.

This proportion of the circulating notes to the capital stock of the bank was not too considerable; on the contrary, it was greatly inferior to what it might have been.

But, as was justly observed by the censor of the bank in his report, the exact limits of discounts are those fixed by the wants of the place and the different public services.

Consequently, the bank could neither be blamed for not having enlarged its discounts, nor applauded for not having circulated a larger amount of notes.

It appears that the bank made no distinction between the private discounts of the trade of Paris and those required for the accommodation of foreigners, and the merchants of the several French departments or provinces; and yet the difference between such discounts is very material and of the utmost importance for the bank.

Before I account for this difference, I shall attempt to state the extent of these various discounts.

The commerce of Paris, before the revolution, might amount to about five-hundred and sixteen millions of French livres, of which two-hundred and fifty-eight millions were for its own consumption, and the same sum at least for its productions or the income of its inhabitants.

It appears from the accounts of the president and the censor of the bank, that this commerce, either of consumption or of productions, and this income, did

not at that time exceed 328,500,000 French livres: I ground my assertion on the following circumstances.

The two reports state, that the daily exchange of bank-notes for specie amounted to 4 or 500,000 livres, the average of which sum is 450,000 livres a day, and for three-hundred sixty-five days 163,250,000 livres.

Now, it is certain that, in ordinary times, bank-notes are exchanged for specie merely for wants of consumption, and rarely exceed their amount. Whence it may be inferred with some certainty, that the total amount of the consumption of Paris never was much above 163,250,000 livres: we will however rate it at 200 millions of livres, that we may not be accused of exaggeration.

Admitting the consumption of Paris at 200 millions of livres, the income of its inhabitants must amount to the same sum, or else their expenditure would exceed their income, impair their capitals, and soon diminish the population of that great city. And supposing even that the expenditure had exceeded the income, and that the excess above it had been supplied by capitals, it would still follow that the expenditure, and the values destined to provide for it, constituted a total of four-hundred millions of French livres, and that this sum was or might have been the object and the result of the private trade of Paris.

Supposing that the bank had discounted the whole of this sum, which is not probable; the totality of its discounts relative to the private trade of Paris would not have exceeded four hundred millions of livres, or about sixteen millions sterling; and consequently, the



surplus to make up the six hundred and thirty millions of livres discounted, and amounting to two hundred and thirty millions of livres, must have been foreign to the trade of Paris, and employed merely for the benefit of foreigners, or of the merchants of the departments or provinces of France.

The bank-directors acknowledged in their accounts, that foreign countries and the merchants of the departments had really partaken of their discounts: but they did not specify the amount of either.

“ It happens,” says the censor, in his report, “ that distant speculators exchange in the bank, by means of their correspondents, their bills on Paris for specie; and having this specie sent to them, they employ it in other bills at a lower rate, but advantageous enough to afford easy and often renewed benefits. Thus a bank so useful to Paris has also a salutary and much more valuable than valued influence upon the greatest number of departments.”

But the safety and prosperity of banks, whose fate is so intimately connected with the progress of wealth, which I am now investigating, forces me to observe that this employment of the capital of the bank, held out as advantageous for the departments, was neither profitable to them nor to the bank, but, on the contrary, expensive for both.

The bills of the provincial merchants discounted at the bank of France in Paris were, it is true, discounted in bank-notes; but these notes were immediately exchanged for coin, because bank-notes were not known in the provinces, where specie alone was circulated. The result of this discount was therefore

a loan of the bank to the merchants of the departments at the rate of half per cent a month, or six per cent a year. The loan in itself would undoubtedly have been very advantageous to the departments, had it been within the means of the bank : but as the loan exceeded the means of the bank, the directors eagerly collected in the departments the metallic currency which they had lent, and at a heavy expence returned to the coffers of the bank the funds which the provincial merchants had carried away at a great expence ; so that the whole operation consisted in conveying the coin from Paris to the departments, and back again from the departments to Paris, and to burthen the bank and the departments with the charges of a conveyance equally useless to both parties. This circulation was not productive of any advantage either to Paris or to the departments ; it was merely a change of place without any benefit whatever, against which banks of circulation ought constantly to guard by the most efficacious measures, if they wish to attain their end without efforts and without danger.

I shall not dwell upon the still greater inconvenience of discounting the bills of foreigners unconnected with the private trade of Paris, which, according to the censor of the bank himself, had “ no other object than to convey the capital of the bank to our enemies and to incapacitate the bank from pursuing its operations :” whatever I might say on this head, would merely be a tedious repetition of what I have stated, and could add nothing to the strength of the observations of the censor upon this subject.

Having approximated, as much as conjecture will allow, the limits of the discounts of the bank for the private trade of Paris and for the provincial or foreign merchants, and having taken the former at four-hundred millions of livres, and the latter at two-hundred and thirty millions, it is of great importance to shew how far the latter were detrimental to the bank, to ascertain this detriment, and to render it so evident that the bank-directors may be still more disposed to guard against such discounts.

The six discounts of the bank at the rate of sixty days each, had each, as we observed before, put into circulation one-hundred and five millions of French livres in bank-notes; which supposition placed the notes, compared to the metallic money stock of the bank, in the proportion of one to two.

But of these one-hundred and five millions in notes, the part destined for provincial and foreign merchants was immediately exchanged for specie, and constituted about a third of the whole; consequently, thirty-seven millions of the specie of the bank took the place of thirty-seven millions in notes. Deducting these thirty-seven millions of specie from the forty-five millions of metallic currency which constituted the capital stock of the bank, there were only eight millions in coin left to take up above seventy-four millions in notes, which made the proportion of notes to cash as one to nine, instead of one to two; in which last proportion they would have continued, had all the discounts been for the private trade of Paris.

This approximation is sufficient to shew the different nature of the two discounts, and to warn banks



to be on their guard against those discounts which are merely covered loans, and which tend only to strip them of their capital, to transform them into mere lenders, and to confound commercial with private credit.

When I am thus precluding the bank of France from discounting provincial and foreign bills, which are mere loans and totally unconnected with the operations of the bank ; I shall, no doubt, be asked to what use the bank could have put that part of its capital stock which was useless to the circulation of the private trade of Paris. The question is connected with the very essence of banks, and can only be resolved by a profound knowledge of the nature and properties of banks.

Banks take commercial bills and give in exchange bank-notes payable on demand in coin. Bills of exchange and bank-notes have neither of them any intrinsic value ; but they both contain a promise to pay such a value. It is therefore a mere exchange of claims, an interchange of promises, between the banks and the merchants who receive their notes. Neither does the merchant who pays his bank-notes to his creditors, give them any thing more than the promise which they contain. His creditors pay these notes to the retail-dealers for the commodities which they want, and thus receive the intrinsic value which they had been promised by transferring to the retail-dealers the claim which they derived from the promise contained in the bank-notes handed to the retail-dealer in payment for his commodities.

The retail-dealer, in his turn, gives the bank-notes to the bank in exchange for his accepted bill when it becomes due ; and on receiving back his bill, he obtains not an intrinsic value, but the engagement which he had contracted to furnish one, just as the bank, on receiving back its notes, does not receive any intrinsic value, but the promise which it had given to furnish an intrinsic value. So that, after all, this circulation of bills of exchange and bank-notes circulates but respective promises to furnish an intrinsic value : and their being ultimately exchanged for each other effects a mere commercial liquidation.

On the other hand, other holders of bank-notes paid to the retail-dealer for his commodities, had received them for some personal service and some intrinsic value, of which the purchased commodities were the exact equivalent ; the bank-notes consequently effect a second liquidation between the consumer and the owner of the commodity consumed.

The only difference between these liquidations is, that the former may be effected without the intervention of coin, and that the second requires a more or less considerable quantity of coin according to the nature of the consumptions, the wealth of the consumers, and the amount of bank-notes.

Thus, to liquidate the demands and debts of commerce and those of labour and consumption, is the characteristic property of banks, the extent and limit of their power.

But the demands of commerce and consumption are of two kinds ; one resulting from the general com-

merce of nations, and the other from the private trade of cities, or large assemblages of individuals composing the same society.

All nations cannot share equally in the great and lucrative liquidation of general commerce. This advantage is reserved to local conveniencies, to particular circumstances, and sometimes to happy situations, which it is not in the power of human combinations to produce or to change. Venice, Amsterdam, Hamburgh, have had prosperous banks for the liquidation of general commerce; and it is impossible to assign any other reasons for it, but considerations derived from their locality, their government, particular circumstances, and a thousand other secondary motives, which it would be useless to inquire into and to develope. Most nations therefore must renounce sharing in the liquidation of general commerce.

But all nations may have banks for the liquidation of their private trade, either with foreign countries, or with the different cities within their territory; and all may derive invaluable advantages from such establishments. Such banks may be established in all places, which afford much produce, and where consumption is considerable. England has adopted the banking system with a success that has been disputed, it is true, but which is alike attested by experience and demonstrated by reason.

France has hitherto attempted the experiment of banks in the metropolis only, and for its private trade; but this trade is so limited, that it cannot flatter itself with the hope of giving to its bank the extent and importance of the other banks of Europe.



All possible combinations afford but two means of employing capitals in the banking system.

The first and, no doubt, the most extensive and most productive of great results, would be to establish successively, and in proportion as its capitals should exceed the wants of the private trade of Paris, branches of the bank of France in all large manufacturing towns and places of great consumption. The extent of this vast empire, the immensity of its population; the richness of its produce, the incalculable consumption of its towns, would perhaps afford liquidations equivalent to those of the general commerce which are shared by a few cities of Europe. This extension of the operations of the bank of France would increase its labours and its benefits tenfold; it would save the use of specie in the liquidation of the commercial debts, and even in a considerable part of the liquidation of the demands of labour and consumption; and I should not be surprized if, with a capital of 200 millions of French livres, it rendered the same service which is this day performed with a metallic currency of above 2,000 millions.

The saving of 1,800 millions would free consumption of an interest of 180 millions, at the rate of 10 per cent.; which crushes commerce, falls heavy on the consumer, restrains consumption, and consequently is detrimental to reproduction.

On the other hand, these 1,800 millions, having become useless to commercial circulation, would flow towards agriculture and manufactures, stimulate their establishment and improvements, and increase their

produce beyond what imagination can conceive most fortunate and most flattering.

Every thing then ought to induce the bank of France to turn its views towards a project of which the execution is easy, the success certain, and the general and private benefit invaluable.\*

Finally, the bank might, by undertaking the payments of all the great commercial establishments, either foreign or French, give a still greater extent to the issue of its notes without greatly enlarging the stock of its coin.

It is the property of all commercial establishments to draw to the place where they are established the liquidation of their speculations. Their demands and their debts are extinguished in that place, and the bank would facilitate their liquidation by its notes. It might even share in the liquidation of general commerce. Whether the establishment of banks is not originally due to great commercial establishments, is an important inquiry, into which I shall not enter at present: but it is certain that banks have arisen under the wings of those great commercial establishments.

The creation of branches of the bank in all manufacturing towns and places of great consumption, and the

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\* This part of my work was written long before the bank of France had adopted the measure which I suggest; and although my object has been attained, I thought I ought to retain the arguments on which my opinion is founded, and which appear calculated to insure the success of my plan.

keeping the cash of great commercial establishments, whether foreign or French, are the two only means to which banks can resort, to employ their capital when it exceeds the particular wants of the commerce of the metropolis, and to assimilate themselves in some degree to banks which share in the liquidation of general commerce.

There are some other banks of circulation at Vienna, Madrid, and Berlin ; but if I am rightly informed, those banks are less for the wants of commercial credit than for the wants of government ; they are rather financial than commercial banks, and more connected with public than with commercial credit. I have therefore no occasion to enter into the detail of their operations, or to undertake the proof that they bear no relation to banks of circulation. The discussion would add nothing to the strength of my arguments, and be without avail for the science.

Having thus developed the laws, proceedings, and methods of banks of deposit and circulation, and their reciprocal influence on commercial credit, it will not be thought idle or uninteresting to inquire which of the two kinds of banks is most favourable to the progress of wealth.

The services of banks of deposit are limited, but free from risk, inconvenience, or any disastrous consequence. They accelerate the circulation of money, and multiply it by the velocity of this circulation ; they save the charges and risks of conveyance, avoid the friction, adulteration, and counterfeiting of coin ; render errors in counting impossible, and prevent the



loss of the time taken up by payments in metallic currency. All these advantages are a clear gain, unalloyed with any loss or risk.

The benefits afforded by banks of circulation are undoubtedly more extensive, more numerous, and more fascinating. They multiply the capitals necessary to support labour, industry, and commerce, by the facility of converting their produce into money as soon as it exists; by giving them fresh employment, and keeping them in constant and uninterrupted activity: and this invaluable service, which metallic money and deposit-banks render but imperfectly and at a considerable expence, is performed by banks of circulation with the greatest ease, and at a most trifling expence.

But these important benefits are attended with imminent and almost unavoidable risks. The velocity of the circulation of capital may be arrested by an unfavourable balance of foreign and local trade, by unfounded alarms, and by an overgrown commerce. When one of these three cases happens, circulation is shackled and frequently paralysed; capitals are not easily converted into money; labour is suspended, or left to languish; and both private and public affairs experience a fatal and deplorable crisis.

When the result of the two kinds of commercial banks is thus contrasted, it is difficult to decide which is preferable. David Hume did not hesitate. He assigns the preference to deposit-banks, and even proposes to improve them. Adam Smith appears to incline in favour of banks of circulation; and Mr. Henry Thornton, who is decidedly for the latter,

has neglected nothing to insure the triumph of his opinion.

This variety of sentiments might perhaps be reconciled, if what is good in either mode of banking was adopted, or if both were so combined as to obtain the advantages of each and avoid their respective inconveniencies. Nothing needs to be done but to introduce a bank-paper, the metallic value of which should always be kept in the coffers of the bank. The thing is not impossible ; but this is not the proper place to enter upon the discussion of projects which would cause me to lose sight of the principles and remove me too far from my object.

Thus banks of deposit or of circulation are the perfection and as it were the strong-chest of commercial credit, and it is impossible to ascend without surprise and admiration every degree of the scale of commercial credit which transmits the productions of labour from the producer to the consumer, without any real equivalent, without the use of money, on the faith of successive and reciprocal promises returning to the coffers of the banks. It is only at the two extremities of the circulation, that is to say, at the period of production and that of consumption, that metallic money is necessary, and cannot be supplied by a substitute. The producer, be he a farmer or manufacturer, must pay his labourers in coin, just as the consumer must pay the retail-dealer in coin for what he requires for his consumption. This part of circulation cannot be effected in paper currency without the greatest inconveniencies, without lapsing into the system of paper-money, or conventional money, of which both the

defects and calamitous consequences have been pointed out, and without endangering alike commercial credit, production, and wealth.

In the intermediate stages of circulation between production and consumption metallic money is perfectly useless, and finds a convenient and useful substitute in commercial credit supported and liquidated by deposit-banks and banks of circulation.

Private credit bears little analogy to commercial credit. It resembles it only in one single point. Both circulate the produce of labour; but that produce does not follow the same direction, has not the same destination, nor does it give the same results.

The produce which commercial credit circulates is destined for consumption; and when it has reached the consumer, commercial credit has finished its course, and there remains no vestige either of its deeds or of its results.

The produce which private credit circulates is that which, having reached the consumer, has been economised, accumulated, and kept in reserve, through the passion of amassing, through the fear of want, or through the desire of greater comforts. These savings circulated by private credit are employed in two ways. Some, but the smallest number, serve merely to restore the level of consumptions, and degenerate therefore into a simple expenditure; the others are turned to undertakings, speculations, and more or less successful, but almost always beneficial, improvements.

When private credit throws these savings into the hands of prodigals and spendthrifts, it augments their expences, advances their ruin, and consequently serves



merely to restore the proportion between production and consumption. It has the same effect as if there had been no saving ; as if every one had consumed his whole income, his whole share in the national produce ; and viewed in this light, it affords no benefit, and deserves neither consideration nor favour.

But when those savings are employed in undertakings, speculations, and improvements, they increase the sum of labour, ameliorate the condition of the labouring class, and favour population. They are, it is true, restored to consumption, as in the former case ; but their consumption leaves an equivalent behind in an augmented population and increased produce of labour. They are of course the true source, or rather the most powerful lever of prosperity and wealth ; and private credit, which is the agent, the promoter of such beneficial results, deserves all the attention and benevolence of governments.

This twofold employment of the savings put into circulation by private credit, ought to warn banks of circulation not to meddle with the operations of private credit. Whether the funds thrown into circulation by private credit go into the hands of spendthrifts or speculators, the banks are immediately forced to convert them into metallic money ; because they are destined to consumption or to labour, and both, as has been observed, can only be paid in coin. As banks of circulation are chiefly established to save the use of coin, they evidently go astray from their destination when they suffer themselves to be voluntarily or fictitiously entrapped into the operations of private credit.

There are however some banks especially devoted to private credit. Such are the banks of Scotland, such was the land-bank (*banque hypothécaire*) of Paris, and such are all lombards (*monts de piété, lumber-offices*). But these establishments have no affinity whatever with banks of circulation. They can only be considered as associations of capitalists, who circulate private savings, and whose operations are limited to the lending of their own and borrowed capitals. When they issue notes their stock in specie must always be nearly in equal proportion to the amount of notes issued. They afford no other advantage than that of concentrating private credit, and giving it a greater influence, stability, and activity. These advantages are, no doubt, valuable, but not to be compared with those resulting from commercial credit.

Though the utility of private credit is so obvious, it yet has not made the same progress as commercial credit; and the reason lies in particular circumstances, which it is necessary to detail.

Most religions have taught, some even have ordered, that private loans should be made gratuitously. They wished that whatever one individual possesses too much, should be generously lent to him who wants it, without any equivalent, without any retribution, and on the only condition of returning the commodity that is lent. Undoubtedly this doctrine is worthy of the sentiments of humanity and charity, which all religions endeavour to awaken in the heart of man: but, it must be confessed, it ill agrees with human passions, with the interest of nations, and the prosperity of empires. Hence it has no other effect than to deprive

mankind of the invaluable advantages of private credit, and to render useless for all what some have too much. This consequence, which the progress of knowledge renders every day more obvious, has been but feebly remedied by the laws. They have not authorized any equivalent or price of loans which religion prohibited; they have only limited that equivalent or price, as if the contract of lending differed in its nature from other civil contracts; as if an individual could be induced to strip himself of what he has saved, without an equivalent that pleases or suits him; as if the price of equivalents was not always proportioned to the mass of surplusses or savings. But let us leave to time the care of giving to these considerations the persuasive power which is denied to reason. Let us await from the general interest, which is every day better felt and better known, a solid triumph over the errors or pusillanimity which still obstruct the progress of private credit, and oppose a fatal resistance to its success.

The denial or limitation of equivalents is not the only obstacle which private credit encounters; it meets with one more serious and less easily overcome in the difficulty of re-payment, in the unpopularity which assails the creditor when he is obliged to enforce payment by a legal process, in the benevolence of the laws, and in the bias of courts of justice in favour of the borrower.

The preference granted to the debtor over the creditor is assuredly astonishing, and its motive cannot easily be guessed; I think however I have discovered it, and I hope I shall be pardoned for developing it at



some length ; not because it may interest curiosity, but because it will render more sensible the defects of the system, which has obtained an unaccountable ascendancy.

The Romans, being confined within a very limited territory in the early stages of the republic, derived great part of their subsistence from plundering the harvest of their neighbours. The uncertainty and inequality of the booty rendered extremely precarious the revenue of a great number of citizens, who could not escape from misery and despair but by borrowing the surplus of their fellow-citizens. The conditions of the loan were rarely generous, and yet the laws enforced its restitution with the utmost severity. These laws were even more than severe, they were atrocious ; emanated from a ferocious, covetous, and indigent people, as a necessary consequence of their economical situation, they perhaps favoured their political designs, and promoted the general interest which their character and their manners taught them to forward at any price.

As debtors had no means of paying their creditors but their share in the booty taken from the enemy, the more the penalties against inexact or insolvent debtors were severe and terrible, the greater must have been their exertions in battle to insure the victory to their country and to avoid the punishment which awaited them if their countrymen should be vanquished. Thus, in civil transactions apparently little connected with political views, we recognize that national spirit of the Romans, which from victory to victory led them on to the conquest of the

world, and which has been considered by all ages as the result of the conceptions and combinations of genius, while in its principle it was but the result of dire necessity, which sometimes proves as beneficial to nations as to individuals.

It must however be acknowledged, that the severity of the laws against debtors frequently occasioned disasters. It fomented numerous seditions, caused strong commotions in the state, and shook it in its very foundations. In those critical moments, the Romans were forced to sacrifice the rights of the creditors to public peace and to the safety of the state. But it is singular that those laws were neither abrogated, nor modified, and underwent no alteration whatever as long as the Romans needed to conquer in order to exist.

When Rome, become mistress of the world, passed under the yoke of the emperors, her laws respecting private credit experienced the changes which her new situation required. The emperors, whose interest was different from that of the republic, neglected no means to lower the power of the patricians, whom they distrusted, and to conciliate the affection of the common people, and interest them as it were in their dominion. Their views were perfectly seconded by the abrogation of the old laws respecting private credit; it deprived the patricians of means which had not a little contributed to their wealth, their power and their influence over the multitude, and it restored to the common people the independence which they had been robbed of by those laws. It was then that a maxim, apparently dictated by humanity, but really

partial, that the cause of the debtor is the most favourable, took its rise ; and it may easily be supposed that from that instant private credit vanished or manifested itself only with precautions and simulations calculated to balance the favour shewn to the debtor. Every page of the Roman code of laws exhibits a struggle between the law and the creditor, and the efforts of the legislator to protect the debtor against the arts and devices of his creditor.

When the nations of modern Europe became acquainted with and adopted the Roman law, or introduced its spirit into their customs, they were exactly in the same situation as the Romans under the emperors. The feudal barons oppressed the people and balanced the authority of the monarch. Kings were therefore as interested in lowering the feudal barons, as the emperors in weakening the patricians ; and the same interest induced the kings, as it had done the emperors, to cultivate the affection of the people. The maxim, that the cause of the debtor is the most favourable, necessarily crept into the code of modern nations, from the same motive which had introduced it into the Roman law. Hence it is found in almost all codes of laws, even in those which do most honour to human reason, and which by the purity of their motives are best calculated to forward the happiness of man and the improvement of the human race.

But a maxim excellent for times of oppression and robbery, in oligarchical governments and under the sway of a small number of wealthy individuals, is no longer suitable to a social order built upon the equality



of civil and political rights, which recognizes labour as the source of comforts, the circulation of its produce as the promoter of public prosperity, and general wealth as the basis of strength and power. In this system every one labours, economizes, and lends his savings merely for equivalents that please and suit him, and only as far as he is sure to be put in possession of those equivalents at the time when the commodity which he has lent is to be restored to him. The limitation of the equivalent and the difficulty of having the loan returned are as many obstacles to private credit, to individual savings, to the undertakings which these savings promote or favour, to the increase of population and produce, and to the progress of national wealth.

Let governments remove obstacles so unworthy of the present state of knowledge, so injurious to their glory, so averse to their power. Let them allow the lender and borrower to stipulate what conditions they think fit; let them watch over the performance of their stipulations; and, above all, let the execution of the law be stripped of the delays and costs with which it is obstructed, and which often render its execution impossible; and private credit will take a rapid flight and be the parent of incalculable benefits.

Public credit in many respects resembles private credit, and might truly be pronounced a mere branch of it. Both circulate private savings, and neither can obtain these savings but by offering an equivalent agreeable or suitable to the lender, and insuring him the restitution of his property: but they differ in so

far as the savings put in circulation by private credit contribute almost all to increase the mass of productive labour; while those circulated by public credit contribute almost all to a mere additional expence, and of course serve only to increase consumption. A difference which has already been noticed and appreciated.

However, it must be confessed, that whenever the necessity of additional expence is obvious, public credit affords the least burthensome resource of all those that could be devised to pay for that expence.

After having attentively followed credit from its source, in its various branches, and up to its most minute ramifications; after having seen it, like a bountiful river, carrying every-where activity, fertility, and abundance, freeing circulation from the costly use of coin, and reserving it for the undertakings of industry; after having witnessed the extensive means of power and grandeur, not over-burthensome to the people, and perhaps connected with their prosperity, which credit affords to government; we ask, with a sort of inquietude, why so many advantages have been so ill appreciated by recommendable writers; how enlightened governments could ever endanger them by frequent and multiplied failures; why some able men persist in seeing nothing in those failures but private interests injured and private fortunes deranged, and think such misfortunes unconnected with public interest? Am I deviating from truth, when I suppose this fatal error to proceed from the hatred which was always manifested in France towards capitalists and those who were called monied men?

When they were indebted for their wealth to the profitable contracts which they entered into with government, and to their grinding the people; there might have been some colour of justice in considering a national bankruptcy as a sort of reprisals, as a kind of retaliation which they had deserved. Their misfortune was applauded by the same motives which induce the stupid Mussulmen to bless the grand-signor, when he confiscates the treasures of the pasha by whom they have been stripped and ruined. Had the results of such unjust proceedings been attended to, it would undoubtedly have been seen that the consequences of the bankruptcy which ruined French capitalists, and of the confiscation which ruined the Turkish pashas, fall upon all classes of the people, and are tantamount to the most burthensome taxes. But passion does not reflect; it only seeks to satisfy itself, without considering the good or ill that is to result from it. Passion does not perceive that national bankruptcies impede private savings; that they arrest or suspend their circulation, and deprive labour of the capitals through which it prospers; that they obstruct the circulation of produce, or burthen it with the enormous cost of the use of coin, and augment by as much the price of consumptions; which augmentation is equivalent to a tax; and finally, that they reduce governments to the necessity of raising contributions beyond the faculties of the contributors, which is the utmost degree of public misery.

It is under the impression of these obvious and manifest consequences that I am warranted in observing, that bankruptcies are, in the present state of social



mechanism, a calamity more disastrous than wars and bad seasons. These last misfortunes at least may be repaired, and quickly disappear where credit has not been impaired, and when nations enjoy all their faculties, their means, and their power. But the loss of credit is irreparable, and destroys even the consolations of hope. May the picture of these dreadful results protect credit against fresh attacks, consolidate it by new measures, keep it unshaken among the nations that have known how to preserve it, restore it to those that had lost it, and establish it among those by whom it never was enjoyed! May credit, by its vast combinations, accelerate their private prosperity, and cause them all to share in the benefits of general wealth!

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## CHAP. V.

### *Which Trade is the most beneficial to National Wealth?*

WHETHER the home or the foreign trade is most beneficial to national wealth, is one of the most important, most difficult, and most controverted questions of political economy.

At first sight, the problem appears to offer no difficulties. The most advantageous trade to nations, as to individuals, must be that which causes the produce of a country to be sold at the highest, and foreign produce to be purchased at the lowest possible price. It seems that it is to this twofold end, that every trade

must tend ; and that a country has attained its object when that end is accomplished. It is even difficult to conceive that the smallest doubt can be raised on this point, and the question viewed in any other light.

Indeed, it was long considered in that light only by the most esteemed writers on political economy.

“ Prudence,” says D’Avenant, “ is generally wrong when it pretends to guide nature. The various products of different soils and countries is an indication that Providence intended they should be helpful to each other and mutually supply the necessities of one another.” \*

The benefit of trade does not consist in the profit of the home-merchant, but in the clear gain the nation acquires through the exchange of its raw and manufactured produce for the produce of other countries.

Elsewhere he remarks, “ that the foreign trade is the basis of the home-trade, that it causes consumption, and increases population in all countries where it flourishes and is encouraged.” † A great part of our domestic trade depends upon our foreign commerce ; and we must sink in one, as the other decreases.

Finally, he says, in another place, “ it is an undeniable truth, that a rise in the value of a commodity of a penny per pound, proceeding from foreign expence, does more enrich the body of the nation than a rise of three-pence per pound occasioned only by our own consumption.” ‡

Sir James Stuart observes, that “ when foreign

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\* Vol. i. page 104.

† Ibidem, page 385.

‡ Vol. ii. page 150.

trade ceases, the internal mass of wealth cannot be augmented." \*

"A nation," says Forbonnais, "gains the amount of its sales to foreigners, and loses the amount of the purchases it makes abroad." †

Lastly, Montesquieu adds to these opinions a reflection which is entitled to notice.

"The nations of the same climate," says he, "having nearly the same productions, do not stand so much in need of trading with each other as those of a different climate. Hence the trade of Europe was formerly less extensive than it is at present."

"As foreign trade is carried on with benefit," observes Beccaria, "that is, as it receives a greater quantity of values, it serves as a more powerful incentive, and is more efficacious to increase the sum of productions. Besides, it burthens the subjects of other countries with a considerable part of the taxes paid to the state." ‡

Were I to collect the opinions of all the writers who have sanctioned, supported, or adopted the sys-

\* *Inquiry into the Principles of Political Economy*, book ii. chap. 26. But I have not been able to trace this passage in the quoted chapter. In the 24th chapter of the same book, of the edition of 1805, it is said: "When foreign trade is at an end, the number of inhabitants must be reduced to the proportion of home subsistence."—T.

† *Elémens du Commerce*, chap. i.—I do not quote this opinion as correct, but as a proof of the system of the best writers on commerce.

‡ *Element. di Econom. Publ.*—*Genovesi, Carli, Verri, Palmieri*, and *Corniani*, speak nearly in the same terms respecting foreign trade.



tem favourable to foreign trade, I should never have done.

Dr. Quesnay is the first who attempted to combat that system.

“In a free concurrence of foreign trade,” says he, “there is but an exchange of equal value for equal value, without either loss or gain on either side, and a nation cannot have a more advantageous commerce than its home-trade.”\*

Elsewhere he adds, “it would be necessary first to enrich the foreign purchasers, to extend the sale of your manufactured produce abroad, and to enrich yourselves in your turn by this trade at the expence of foreigners, &c. Foreign trade is but a last resource to nations, for which their home-trade is not sufficient profitably to dispose of the productions of their country.”†

Adam Smith has, like Dr. Quesnay, combated the system favourable to foreign trade, and extolled the home-trade as the most beneficial to national wealth; but his opinion has been influenced by motives not only different but even opposed to those of Dr. Quesnay.

“That trade,” observes Adam Smith, “which, without force or constraint, is naturally and regularly carried on between any two places, is always advantageous, though not always equally so to both. By advantage or gain,” he adds, “I understand, not the increase of the quantity of gold and silver, but that of the exchangeable value of the annual produce of the land and

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\* *Physiocratie*, Observation 5.      † *Physiocratie*, page 345.

labour of the country, or the increase of the annual revenue of its inhabitants." \*

Thus Adam Smith is of an opinion directly opposite to that of Dr. Quesnay concerning the nature and effects of foreign trade. He acknowledges that this trade is useful, and yields profits to the nations that devote themselves to it: but he pretends that these profits are in no proportion with those resulting from the home-trade; and he grounds his opinion on the following argument:

"The capital which is employed in purchasing, in one part of the country, in order to sell in another, the produce of the industry of that country, generally replaces, by every such operation, two distinct capitals that had both been employed in the agriculture or manufactures of that country; and thereby enables them to continue that employment. When it sends out from the residence of the merchant a certain value of commodities, it generally brings back in return at least an equal value of other commodities. When both are the produce of domestic industry, it necessarily replaces, by every such operation, two distinct capitals which had both been employed in supporting productive labour, and thereby enables them to continue that support.—The capital employed in purchasing foreign goods for home-consumption, when this purchase is made with the produce of domestic industry, replaces too, by every such operation, two distinct capitals: but one of them only is employed in supporting domestic industry. The capital which sends British goods to

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\* Wealth of Nations, London, 1805, vol. ii. page 244.

Portugal, and brings back Portugese goods to Great-Britain, replaces, by every such operation, only one British capital. The other is a Portuguese capital. Though, therefore, the returns of the foreign trade of consumption should be as quick as those of the home-trade, the capital employed in it will give but one half of the encouragement to the industry or productive labour of the country.

“ But the returns of the foreign trade of consumption are very seldom so quick as those of the home-trade. The returns of the home-trade generally come in before the end of the year, and sometimes three or four times in the year. The returns of the foreign trade of consumption seldom come in before the end of the year, and sometimes not till after two or three years. A capital therefore employed in the home-trade will sometimes make twelve operations, or be sent out and returned twelve times, before a capital employed in the foreign trade of consumption has made one. If therefore the capitals are equal, the one will give four-and-twenty times more encouragement and support to the industry of the country than the other.”\*

This doctrine of Adam Smith is, no doubt, very plausible, and discovers much sagacity; hence it has seduced all who have written after him on subjects connected with political economy. All have adopted it unreservedly and indiscriminately, and I must confess that the unanimous approbation with which this doctrine has been crowned, has made me carefully

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\* *Wealth of Nations*, vol. ii. pages 63, 64.



weigh the motives that induced me to doubt its correctness : but after having seriously meditated on the subject, I thought that private considerations ought not to prevent my stating my doubts on this important point of political economy, and I flatter myself that, were I even mistaken, my error will find grace before the most enthusiastic adherents of Adam Smith, because they will be convinced that I have only yielded to the love of truth and to the interests of the science.

In order to be certain whether, as is asserted by Adam Smith, the capital employed in circulating the raw and manufactured produce of a country supports four-and-twenty times more national labour when that circulation takes place at home than when the productions are sent abroad, we must fix the amount of that capital, follow its operations, and endeavour to ascertain its results.

Let us suppose that the capital of the trade which replaces the capital destined to support the labour of a country, amounts to one-thousand millions of French livres, and that the stock which commerce devotes to circulate this one-thousand millions amounts to two-hundred millions ; the whole capital which supports the labour of the country will, in this hypothesis, amount to twelve-hundred millions. As soon as commerce circulates the produce of the soil and industry of a country, the labour of the country has been performed ; and it matters very little to that labour, whether its produce be consumed abroad or at home ; both consumptions restore to the labour of the nation the one-thousand millions destined for its support.

Under the supposition that this one-thousand millions is consumed at home, it is re-imbursed by the national income ; when it is consumed abroad it is re-imbursed by the income of the foreign country : for, abroad, as at home, consumption can take place only by means of an equivalent especially reserved for the labour, the produce of which has been consumed. In both cases, therefore, no part of the one-thousand millions destined for the support of national labour undergoes the smallest diminution.

As for the two-hundred millions employed in the labour of circulating the produce, it matters not whether it is paid for the circulation abroad or at home ; in both cases, the amount is repaid by the national or foreign consumers, and consequently it always remains entire with regard to the labour of the country.

It therefore appears quite clear, that the capital destined to support the labour of a country cannot be impaired, whether its produce be consumed at home or abroad ; and in this sense Dr. Quesnay was right, when he said that in the foreign trade there is neither loss nor gain on either side.

But if the matter be considered in another point of view ; if we ask whether the consumption of the produce of the soil and industry of a country be most advantageous to public and private wealth, when it takes place at home, or when it takes place abroad ; the nature of the question is altered ; it then becomes of the greatest interest, and affords results much more useful and much more productive for the science.

When the produce of national labour is consumed in the country, its consumption is not very active,

because, as Montesquieu observes, people of the same climate have nearly the same productions, and find in them none but common and ordinary enjoyments : consumption never goes beyond their wants, because the productions are not capable of exciting their desires, gratifying their sensuality, or flattering their vanity. All that can be wished for of such a consumption is, that it shall regularly absorb the produce of national labour. In such a state of things, it is very fortunate for the nation, if its wealth continue stationary, as it is more likely to be retrograding than progressive.

When, on the contrary, the produce of national labour is consumed abroad, the returns, which consist of new, various, and more abundant productions, are generally sought after, their consumption is rapid, labour and industry redouble their efforts to procure them, and both private and public wealth make an astonishing progress.

Moreover, the returns for the exported produce are always more considerable than that produce ; that is, the foreign country gives a greater quantity of produce than it receives, and this surplus consequently increases the capital destined for the support of national wealth. The characteristic of foreign commerce is to offer to all nations the produce which suits them best, and consequently to make them pay dearer for it than what it is worth in the place where it is produced. Hence it follows, that foreign commerce affords every nation sure means of selling dear the produce of its own labour, and purchasing cheap the produce of foreign labour. This phenomenon has been discovered by Adam Smith, and he explains it thus,



“ Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants and increase their enjoyments. By means of it, the narrowness of the home-market does not hinder the division of labour, in any particular branch of art or manufacture, from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home-consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society.” \*

It is not only by procuring a sale to the surplus produce of the labour of a country that foreign trade succeeds in selling dear the home-productions, and purchasing the foreign produce cheap. The same effect would take place, if it were possible for nations to trade with the whole produce of their labour. The produce sold abroad is always higher in price than in the place of its production, and consequently foreign trade always sells dear and buys cheap.

Lastly, another advantage resulting from foreign trade, which has not been noticed by Adam Smith, is this. It invites all nations to share in the fertility of

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\* *Wealth of Nations*, vol. ii. page 175.

all soils, in the improvement of every branch of industry, and in the progress of general civilization. The enjoyments of any particular people are no longer limited by the sterility of its climate, by the awkwardness or inexperience of its labourers, nor even by the defects of its political institutions. The fertility of any soil, the improvement of any branch of industry, the goodness of any political institution, become as it were common to all individuals, to all nations, to the whole family of the human race. This sharing in the general abundance banishes poverty from all countries, or at least no nations are left in poverty but those which do not know how to avail themselves of the soil on which they are placed, or whose industry is checked by the carelessness or ignorance of their government.

That Adam Smith should have thought it more advantageous for a country to consume the produce of its labour than to sell it abroad, is so much the more surprizing, as he teaches the direct contrary when the question is of purchasing abroad.

“ It is,” he says, “ the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoe-maker. The shoe-maker does not attempt to make his own clothes, but employs a tailor. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce whatever else they have occasion for,

“ What is prudence in the conduct of every private family, can scarcely be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry.” \*

If it be the interest of a nation to purchase from a foreign country when that country sells cheaper ; how can its interest be injured by selling to the foreign country when it purchases dearer ? What difference is there between purchasing cheap from a foreign country and selling dear to that country ? It is not easy to discover any difference.

Does not the capital which purchases the produce of foreign industry, replace a foreign capital, as well as in the case of selling national produce to a foreign country ? Is not the labour of the foreign country supported by national capital in one case as in the other ? If, in the case of selling to a foreign country, the capital of the merchant replaces a foreign capital, his capital also replaces a foreign capital when he purchases the produce of the foreign country. If, by selling to the amount of twenty millions of the produce of home-industry, the capital of the merchants who import in return foreign commodities, to the amount of twenty millions, exchanges twenty millions of national capital for twenty millions of foreign capital, the same merchants, when they purchase the produce of foreign industry to the amount of twenty millions, exchange alike twenty millions of

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\* *Wealth of Nations*, vol. ii. pages 191, 192.



national capital for twenty millions of foreign capital. The two cases are perfectly parallel; and it is only through an inconceivable inattention that Adam Smith has applied to each a different doctrine \*.

If he supposed that, in the case of purchasing foreign commodities, the returns of the national capital are quicker than in the case of selling the produce of national labour to foreign countries, he still laboured under a manifest error.

Whether foreign countries bring the produce of their industry, or national merchants go to fetch it from the spot where it is produced, the result is always the same; and in both cases the returns are as slow as in the case of selling to a foreign country.

If national merchants fetch the produce of foreign industry, they export the produce of national industry to pay for it; and the length of the voyage out and home is the same as when the foreign trade imports the produce of foreign industry, and exports the produce of national industry; consequently, selling to a foreign country and purchasing in a foreign country are both alike subject to the inconveniency of a slow return of capital.

But does that inconveniency really exist, or is it not rather delusive and imaginary?

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\* The capitals employed in the home-trade may, it is true, stimulate national industry in a double degree to what those employed in foreign trade do: but they cannot set so great a quantity of labour in motion, because the home-consumption is limited, whilst that of the foreign markets is unbounded. This reflection of an Italian author is, I think, as true as sagacious. See *Palmieri's* excellent work, *Della Publica Felicità*.

The general labour of a country does not depend on the celerity or slowness of the returns of commercial capitals ; credit supplies their absence ; and, provided they bring back a more abundant foreign produce than the national produce exported, national labour loses nothing of its activity and productiveness. Labour is not interested in the quickness of the returns, but in the consumption of its produce ; and whenever that consumption experiences no delay, labour preserves all its activity. Commerce always easily replaces the capitals of labour, when it finds a sale for its produce. The credit which it gives to the consumers, affords safe resources to replace the capital of labour. It can negotiate the documents of the credit it has given in a thousand ways, and, by discounting its bills, accelerate the return of its capital according to the wants or exigencies of labour \*.

National labour therefore is never a sufferer from the slowness of the returns of the capital destined for its support ; it only suffers from the slowness, difficulty, or insufficiency of the consumption of its produce, and from its reduced price or depreciation. When the produce of labour is depreciated, or sold very cheap, the wages of labour afford but a scanty pittance to the labourers, the profit of stock is incon-

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\* The Italian author whom I quoted in the preceding note, observes again on this head, that if the home-trade, by the rapidity of its returns, allows the same capital to be employed several times which foreign trade allows to be employed only once, foreign trade employs a greater quantity ; and this greater quantity of capital employed compensates for the slowness of its returns, and yields profits much more considerable.

siderable; land yields a poor rent, or even none at all; labour languishes, industry pines, and national wealth decays. That the produce of national labour is consumed at home, and that the capital of the home-trade always replaces two national capitals, is of little importance; national wealth is not improved, nor is the condition of the people rendered less miserable by the circumstance.

But when the produce of national labour is sold at a high price, the labourer then receives ample wages, the profit of stock is great, the rent of land considerable, national industry flourishes, opulence is progressive, and the wealth of the state becomes the immovable basis of its power: whether this high price of the produce of national labour be paid by foreign countries, is of no moment; its effects are not less certain nor less prosperous.

The question reduces itself simply to this: does the foreign or the home trade procure the most advantageous price to the produce of national labour? And I think it has been sufficiently answered in favour of foreign trade. Consequently, all nations are in my opinion powerfully interested in giving to foreign the preference over the home trade.

Consistently with his principles, Adam Smith assigns the last place to the carrying trade, the capital of which is merely employed in replacing the capitals which support the labour of foreign countries.

But his opinion is directly opposite to that of D'Avenant, whose knowledge and information on



subjects connected with political economy are entitled to the highest consideration.

“ Freight,” says D’Avenant, “ is not only the most politic, but the most national and most certain profit a country can possibly make by trade.” \*

Such a difference between two justly esteemed writers deserves to be investigated.

And first it ought to be observed, that the assertion, that the capital employed in the carrying trade replaces only foreign capitals destined to support the labour of a foreign country, is not correct. This capital supports also the labour which builds and fits vessels out; it pays the wages of the sailors †, the commission for warehouses, and all the advances to which it gives rise. It is the origin and principle of the transit trade, which is so profitable in all its branches, because it pays considerable wages, and maintains a great number of individuals at the expence of the industry of other nations.

Notwithstanding these numerous advantages, I do not think that the carrying trade is the most benefi-

\* Vol. ii. page 275.

† The author forgets that *Adam Smith* himself observed, that, “ when the carrying trade of any particular country is carried on with the ships and sailors of that country, that part of the capital employed in it which pays the freight is distributed among and puts into motion a certain number of productive labourers of that country.” (*Wealth of Nations*, vol. ii. page 68.) But *Adam Smith* did not enter much into the subject, because Great Britain had no *carrying trade* at the time he wrote, and this is also the probable reason why he neglected mentioning the *transit trade*.—T,

cial, or that it ought to be favoured at the expence of the foreign trade of consumption.

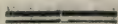
Why does a nation employ its capitals in one labour preferably to another? Because it has a decided superiority in this labour; and this superiority balances the advantages which other nations have in other branches of industry. The benefits of the carrying trade are therefore relative. They depend on the situation of the country, on the manners of the people, and on their taste and knowledge. Such circumstances are local, and cannot easily be transferred from one country to the other.

Every nation has advantages in some kind of industry. It ought to study to improve them without envying those advantages which other nations enjoy in other branches of industry, and without neglecting those which it may attain without inconvenience, and in which it may keep up the competition.

In short, we ought to recollect what D'Avenant says, with as much sagacity as judgment: "The various produce of different soils and countries is an indication that Providence intended that they should be helpful to each other and mutually supply the necessities of one another."

Thus it appears certain, that foreign trade is more favourable to private and public wealth than the home-trade. Nations ought therefore studiously to exert themselves to place foreign trade on a solid and immovable basis, and eagerly seek for the means best calculated to raise it to the highest pitch of perfection.

The means hitherto employed consist in privileged companies, colonies, and treaties of commerce with foreign powers. The efficacy of these different means is disputed by our best writers, and forms a problem which is not easily solved. I shall endeavour to give it a full investigation and to reduce it to a proposition so plain that the advantages and inconveniencies of the different theories on this important point of political economy may at least be appreciated.



## CHAP. VI.

### *Of Corporations and privileged Companies.*

COMMERCE, or the general circulation of the produce of labour, in which wealth is so strongly interested, has not escaped the attention of modern governments; and what must appear very extraordinary is, that the mode of conducting it has been nearly the same at first in all countries. Every-where the home-trade was at first entrusted to privileged individuals, and afterwards to corporations regulated by statutes and general and private laws. Every-where privileged companies have been exclusively allowed to pursue the most productive branches of foreign trade: but it must be acknowledged, that the uniformity of a method establishes neither its necessity, nor its utility and advantages. The interests of princes, temporary wants and personal considerations, were generally the motive or the pretence of such concessions.



Experience and reason have long ago pointed out the defects, inconveniencies, and calamities of a restricted commerce. It has been equally reprobated by all writers, without exception; and if it be still found among some enlightened nations, it is because it is in some degree become a part of the political system, and is identified and confounded with the right of property. But it is every day modified, every day it is forced to capitulate with public opinion, by which it is hooted, and governments themselves prolong its existence merely because they are obliged to yield to the circumstances of the times, which excuse any thing and oppose the best intentions.

It is not therefore with the view to ascertain the truth of the principles, that I shall inquire into the influence of corporations and privileged companies upon the circulation of the produce of general labour; but I think it will not be useless rapidly to state the powerful considerations which imperiously demand the suppression of a method of commerce so fatal to general wealth.

Corporations and exclusive companies, as their proceedings are similar, afford also the same results. They give to a certain number of privileged individuals the right of purchasing of the producer to sell to the consumer. They consequently limit the number of buyers and of sellers; which circumstance gives to the privileged buyers and sellers the faculty of selling dear and purchasing cheap. But to purchase cheap of the producer is to discourage production, and to sell dear to the consumer is to discourage consumption. Thus it is

hardly possible to conceive a method of commerce more prejudicial to wealth.

Besides, corporations and privileged companies give to circulation a constant and uniform motion, which is not easily changed and improved. They oppose an insuperable obstacle to the progress of knowledge, to the reflections of experience, and to the discoveries of genius. Every individual is condemned to perform the task which he has learnt; and it is only with great difficulty that he can quit the sphere of the knowledge he has acquired. Science becomes an obstacle to science, and arts advance to old age without emerging from infancy.

Finally, the profits which the right of selling dear and purchasing cheap insures to corporations and privileged companies, attract to that kind of labour larger capitals than what would have gone to them of their own accord, and reduce the quantity of those which would have been employed in other branches of labour. The excess of capitals in privileged employments, and their scarcity in other labours, necessarily raises their profits, and the high rate of profit of stock is fatal to the progress of industry and wealth.

“ Besides all these bad effects,” says Adam Smith, “ necessarily resulting from a high rate of profit, there is one more fatal, perhaps, than all these put together. The high rate of profit seems every-where to destroy that parsimony which in other circumstances is natural to the character of the merchant. When profits are high, that sober virtue seems to be superfluous, and expensive luxury to suit better the

affluence of his situation. The owners of the great mercantile capitals are necessarily the leaders and conductors of the whole industry of every nation ; and their example has a much greater influence upon the manners of the whole industrious part of it, than that of any other order of men." \*

Thus every thing contributes to demonstrate, that the circulation of the produce of general labour is defective when it is effected by corporations and privileged companies.

A modern French writer thinks, that the privilege of a company is justifiable when it is the means of opening a new trade with distant or barbarous nations. It then becomes a sort of patent, the advantage of which covers all the risks of a hazardous undertaking and the costs of a first experiment. The consumers cannot complain of the dearness of the produce of those distant countries ; were it not for the monopoly, it would be much dearer, or it could not be had at all. But, like patents, the privilege ought to last only for the time required completely to indemnify the undertakers for their advances and risks. This time once elapsed, such a privilege would be nothing but a wanton gift made to the privileged individuals at the expence of their fellow-citizens, who hold from nature the right of providing themselves with commodities wherever they can, and at the lowest price possible." †

This exception appears at first sight plausible, advantageous, and no-wise inimical to the principles of com-

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\* *Wealth of Nations*, vol. ii. page 482.

\* *Traité d'Economie Politique*, par Say, livre i. chap. 2.



merce. But when examined more closely, it will be seen that there is not any branch of foreign trade that, if this doctrine were admitted, would be secure against a monopoly, and the privilege of which might not easily be justified. Indeed this kind of privileges is almost always founded upon the advantage of opening a new trade with distant nations, upon the risks of a hazardous undertaking, or upon the necessity of an indemnity. All privileges therefore would be just and necessary: but in such cases, it is not the interest of the privileged individuals that ought to be considered; it is the interest of the circulation of the produce of labour. But this circulation is essentially endangered by any kind of privilege. It is checked alike by the low price of the produce and the dearness of the consumption, by the higher rate of profit, and every obstacle by which it may be obstructed.

Should it however happen, that one or several individuals had opened, at their own risk, a road unknown to commerce and of evident utility; it would be proper for government to grant them not only an indemnity, but a reward proportioned to their services. This measure, conformable to justice and to the spirit of civilized societies, would afford useful encouragements, turn to the advantage of commerce, and be free from the inconvenience of exclusive privileges.

Before the guardian principles of commerce were ascertained, the immense extent of capital required for certain commercial enterprizes, the necessity of harmonizing their various branches, the permanent establishments which they demanded, the risks to which they were exposed, and the slowness of the

returns, served as pretences for the creation of a number of privileges, and have since protected them against the blows which have been aimed at them. It is on such a foundation that almost all European nations have created monopolies or exclusive companies for the trade of the East Indies, of Africa, America, and of the East and North of Europe.

But experience has long since manifested the inutility of these privileges; and it is now generally known, that any trade carried on by a company may be carried on much more advantageously by private individuals. It is particularly with regard to the trade with the East Indies that this truth has been made most evident. The proofs have been accumulated in a vast number of separate tracts; and among all those which I could quote, I shall appeal to the evidence of a member of the French board of trade, a man deeply learned on those subjects.

“ It is notorious,” said Mr. de Gournai, “ that, the direction of a company being very costly and burthened with many expences foreign to trade, a company can only engage in trades that yield high profits, such as cent. per cent, or eighty per cent. All trades whose profits are less, are neglected by trading companies; they cannot undertake them. But as nothing restricts commerce more than a high rate of profit, it is not surprizing that countries so extensive as China and the East Indies, do scarcely employ annually twenty vessels of the East-India Company.”\*

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\* *Mémoires de l'Abbé Morellet sur la Compagnie des Indes* en 1769.

Let us therefore conclude, that privileges for the circulation of any branch of national and foreign produce, is contrary both to the true principles of political economy and to the progress of wealth.

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## CHAP. VII.

### *Of Modern Colonies.*

MODERN colonies, in whatever light they may be viewed, have nothing common with the colonies of the ancients but the name.

The Greeks and Romans had no other object in establishing colonies, than to open a vent to an over-increased population, the wants of which exceeded the means of the society, and which, soured by misery, might become an instrument of disorder, favour civil commotions, and endanger the tranquillity and safety of the state. The object of these colonies was therefore to avoid poverty, which is always fatal to the tranquillity and power of states.

Modern colonies have a totally different object. They are an extension of the territory of the mother-country, the means of increasing its population, wealth, and power; and they accomplish this important end by the fertility of their soil, and the variety and novelty of their productions, which render them universally desirable, and, above all, by their abundance and cheapness, which place them within the reach of every one.



Brought into the market of Europe, these productions afforded a new equivalent to the produce of its soil and industry, raised its price, and necessarily augmented its production. They therefore increased the wealth of Europe, not only with their own value, but also with the value of all the commodities which they caused to be produced to serve as their equivalent. The results of this double improvement are incalculable.

It is true, that the population of Europe has almost entirely created the population of the New World; that its capitals have paid for the clearing and cultivating of its valuable soil: but how advantageous and profitable has this employment of capital proved to Europe! It is, no doubt, impossible to ascertain the precise amount of these advantages; but the most superficial estimation enables us to judge of their extent and importance.

The number of Europeans who have peopled the New World, cannot be estimated higher than one million. This population, according to the most enlightened political arithmeticians, would have been doubled in Europe in five hundred years, and consequently would have multiplied only at the rate of two thousand individuals a year, which, in the space of two centuries, would have augmented the population of Europe by four hundred thousand individuals.

The population of the New World, which is of European origin, amounts at least to twelve millions; which supposes that the one million of individuals who passed from Europe into the New World have

multiplied at the rate of fifty-three thousand three hundred individuals a year, consequently in a proportion twenty-six times superior to that which would have taken place, if that one million of individuals had remained in Europe.

The progression of the capitals which Europe sent to the New World has not been less rapid, nor less extraordinary.

Supposing that every European who went over to the New World carried with him a capital of three-hundred French livres (about 12*l.* 10*s.* sterling), the totality of the capitals conveyed from Europe to America, in the space of two centuries, would amount to three hundred French millions, (12,500,000*l.* sterling). As this transmission was effected gradually, it is probable that Europe has not been totally deprived of it for more than a century. These three hundred millions employed in Europe would not have produced above ten per cent *per annum*, and consequently would only have increased the capital of Europe by three-thousand millions.

The same three hundred millions employed in the clearing and cultivating of the lands of the New World, and in the working of its mines, have created a capital of more than five-and-twenty thousand millions.

According to the most particular information derived from persons intimately acquainted with the subject, the lands that have been cleared in the United States amount to thirty-nine millions of acres. Besides having subsisted above six millions of individuals,

these lands furnished, in 1804, an exportation of corn amounting to forty-two millions of dollars, or above two hundred millions of French livres.

Supposing that the home-consumption does not exceed the amount of the corn exported, thirty-nine millions of acres must have produced four hundred millions of livres, and may therefore be valued at, at least .....

8,000,000,000

Dwelling-houses, 1,225,000 in number, cannot be estimated at less

than ..... 2,000,000,000

Household furniture, machines, and implements of labour may be rated, without exaggeration, at, at least,

1,000,000,000

Horses, 1,200,000 in number, must be worth at least .....

120,000,000

Heads of horned cattle, 2,950,000 in number .....

212,400,000

Metallic currency in circulation stated at 17 millions of dollars, making, in French livres, about .....

80,000,000

The produce of the French West-Indies amounted, in 1787, to 218 millions, the capital of which is ..

4,000,000,000

Their houses, buildings, cattle, and machines, household-furniture, and coin in circulation, amounted at least to .....

1,000,000,000

The produce of the English possessions in America have been rated at

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16,412,400,000



Brought forward	16,412,400,000
above 500 millions *: but the particular circumstances of the times have alone been able to give them that immense increase.	
A well-informed French author, with whose accuracy and veracity I am particularly acquainted, estimated it, in 1788, at only 159,040,573 livres †; and I shall not rate it higher. The capital of this produce is	3,150,000,000
The houses, buildings, cattle, implements and machines, and the circulating coin of the English possessions in America, cannot be taken at less than	1,000,000,000
The mines of South America have, since their discovery, yielded more than one hundred millions annually; and estimating their produce only at that sum, they form a capital of	2,000,000,000
The other productions of South America cannot be rated at less than fifty millions, and give of course a capital of	1,000,000,000
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	23,562,400,000

\* The *Aurora* newspaper of New York, August the 8th, 1807.

† *Traité d' Economie Politique et du Commerce des Colonies*, par Mr. Page.

Brought forward 23,562,400,000

Finally, the houses, buildings, cattle, implements, machines, household-furniture, and circulating coin of South America must certainly exceed 2,000,000,000

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Total livres 25,562,400,000

This immense result, compared to that which the employment of the same capitals would have yielded in Europe, not only proves to demonstration the utility of the colonization of America, but also furnishes an additional proof of the error into which Adam Smith has been betrayed, when he set it down as a principle, 1st, that agricultural labour is the most productive in any country; 2dly, that capitals are so much more conducive to national wealth, when they are first employed in the cultivating of the national soil, and afterwards in the support of that industry the produce of which is consumed at home, and, lastly, in the home-trade; 3dly, that the home-trade is the most advantageous to any country. Had Europe followed this doctrine; had she employed in the cultivation of her soil, in her particular industry and home-trade, the three hundred millions which she sent to America, they would have increased her capital only by three thousand millions of French livres, whilst employing them in cultivating the soil of and trading with America has raised that capital to above five-and-twenty thousand millions of livres, or one thousand millions sterling. Europe therefore is infinitely richer through this mode of employing her capital, than she would have been through that recommended by Adam Smith.

Facts in this instance support the principles, and tend to demonstrate alike that private and public wealth does not result from the direction of labour, capitals, and commerce, to a particular spot, but from their direction to the soil, industry, and commerce, which yield the most abundant produce, the consumption of which is most certain, and whose exchangeable value is most considerable.

As wealth consists in the surplus of produce above consumption, it is the interest of every individual, of every nation, of the whole world, to cultivate the most fertile soils which yield the most considerable net produce, to favour the industry of the country whose productions cost least and possess the greatest value, and to encourage the least expensive and most economical commerce. The more the surplus of the productions of the soil, industry, and commerce, are considerable, the more they increase general wealth, afford resources to private capitals, and contribute to develop individual faculties.

The advantages which nature or social institutions have conferred on some countries are not prejudicial to the countries that are deprived of those advantages; they may, on the contrary, furnish them with useful means of prosperity and wealth. The abundance of the produce of America has fertilized the greatest part of the soil of Europe, created or at least accelerated the progress of her industry, and laid the foundation of her immense commerce. The sugar, coffee, cotton, and tobacco of America have encouraged in Europe the growing of corn and rearing of cattle, the working of mines and improving of fisheries, the growth of the



manufactures of linen, silks, hardware, woollen cloth, jewellery, household-furniture, and arms, and the perfection of navigation and commerce. The assertion therefore is correct, that Europe is grown rich with the wealth of America ; and the result will constantly and every-where be the same. The characteristic of wealth is to spread, to multiply in its progress, and to swell in proportion to the extent of the ground it has gone over. All doctrines that preach local labour, local industry, and local commerce, stop the circulation of wealth, stint its growth, and limit its extent. In short, the progress of general wealth is so much the more rapid, when it is the result of the concurrence of general labour, of all capitals, and of universal commerce ; and it is so much slower when wealth is the result of private labour, and of the capitals and commerce of an individual nation.

But if it must be acknowledged, and if Adam Smith himself has confessed, that Europe has derived great advantages from the colonization of America, it does not appear equally certain that nations with colonies have shared more largely in those advantages than those nations that have no colonies.

“ The particular advantages,” says Adam Smith, “ which each colonizing country derives from the colonies which particularly belong to it, are of two different kinds ; first, those common advantages which every empire derives from the provinces subject to its dominion ; and, secondly, those peculiar advantages which are supposed to result from provinces of so very peculiar a nature as the European colonies of America.

“ The common advantages which every empire derives from the provinces subject to its dominion consist, first, in the military force which they furnish for its defence ; and, secondly, in the revenue which they furnish for the support of its civil government.— The European colonies of America have never yet furnished any military force for the defence of the mother-country. The military force has never yet been sufficient for their own defence ; and in the different wars in which the mother-countries have been engaged, the defence of their colonies has generally occasioned a very considerable distraction of the military force of those countries. In this respect, therefore, all the European colonies have, without exception, been a cause rather of weakness than of strength to their respective mother-country.” \*

This assertion of Adam Smith does not appear quite correct. The provinces subject to the same dominion in general contribute to the support of the military force and civil government of the country by their pecuniary contributions ; and the colonies of America pay such contributions, not only for their own defence and their civil government, but also for the defence and civil government of the mother-country. They are not, it is true, direct contributions ; and for that reason have not the appearance of contributions. But they are not less so in reality ; and whether it be by taxes on the consumption of the colonies, or by taxes on the produce of the colonies at its importation in the ports of the mother-country, or, lastly,

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\* *Wealth of Nations*, vol. ii. pages 417, 448.

by the monopoly of colonial trade, the wealth of the colonies does effectually contribute to the defence and civil government of the mother-country as all the other wealth of the mother-country does.

Adam Smith asserts, it is true, that the monopoly of colonial trade is of little benefit to the mother-country : but this circumstance is perfectly indifferent, since the monopoly is not the less burthensome to the colonies ; and hence it is not fair to conclude that it ought to count for nothing in the catalogue of the advantages which the mother-country derives from colonies. How many other burthens laid upon the wealth of the mother-country are not more beneficial to the state ; and yet no one ever attempted to maintain that the individuals subject to those burthens do not contribute to the defence and civil government of the empire !

But how far is Adam Smith warranted in asserting that the monopoly of colonial trade, so prejudicial to the colonies, is of no benefit to the mother-country ? This fact is entitled to an attentive consideration, because it affords instructive information concerning the nature and effects of monopolies.

“ The exclusive trade of the colonies,” says Adam Smith, “ as it diminishes, or at least keeps down below what they would otherwise rise to, both the enjoyments and the industry of the countries which do not possess it ; so it gives an evident advantage to the countries which do possess it over those of other countries.

“ The advantage, however, will perhaps be found



to be rather what may be called a relative than an absolute advantage; and to give a superiority to the country which enjoys it, rather by depressing the industry and produce of other countries, than by raising those of that particular country above what they would naturally rise to in the case of a free trade.

“ In order, however, to obtain this relative advantage in the colony-trade, in order to execute the invidious and malignant project of excluding as much as possible other nations from any share in it; England, there are very probable reasons for believing, has not only sacrificed a part of the absolute advantage which she, as well as every other nation, might have derived from that trade, but has subjected herself both to an absolute and to a relative disadvantage in almost every other branch of trade.

“ But in an employment of capital in which the merchant sold very dear and bought very cheap, the profit must have been very great, and much above the ordinary level of profit in other branches of trade. This superiority of profit in the colony-trade could not fail to draw from other branches of trade a part of the capital which had before been employed by them. But this revulsion of capital, as it must have gradually increased the competition of capitals in the colony-trade, so it must have gradually diminished that competition in all those other branches of trade; as it must have gradually lowered the profits of the one, so it must have gradually raised those of the other, till the profits of all came to a new level, different from and somewhat higher than that at which they had been before.

“ This double effect of drawing capital from all other trades, and of raising the rate of profit somewhat higher than it otherwise would have been in all trades, was not only produced by this monopoly upon its first establishment, but has continued to be produced by it ever since.

“ But whatever raises in any country the ordinary rate of profit higher than it otherwise would be, necessarily subjects that country both to an absolute and to a relative disadvantage in every branch of trade of which she has not the monopoly.

It subjects her to an absolute disadvantage : because, in such branches of trade, her merchants cannot get this greater profit, without selling dearer than they otherwise would do both the goods of foreign countries which they import into their own, and the goods of their own country which they export to foreign countries. Their own country must both buy dearer and sell dearer ; must both buy less and sell less ; must both enjoy less and produce less, than she otherwise would do.

“ It subjects her to a relative disadvantage ; because, in such branches of trade, it sets other countries, which are not subject to the same absolute disadvantage, either more above her or less below her than they otherwise would be. It enables them both to enjoy more and to produce more in proportion to what she enjoys and produces. It renders their superiority greater, or their inferiority less, than it otherwise would be. By raising the price of her produce above what it otherwise would be, it enables the mer-

chants of other countries to under-sell her in foreign markets, and thereby to jostle her out of almost all those branches of trade of which she has not the monopoly.”\*

These reflections, which are extremely sagacious and uncommonly just, clearly shew the inutility of the efforts of monopolies to make the balance of trade turn to their advantage. The advantages which a monopoly obtains in the branches of trade of which it has possessed itself, are compensated by the disadvantages which it experiences in the other branches which it has been forced to relinquish; the counterpoise of general interest restores the equilibrium which it seeks to destroy; and, after all, if it be malignant, if it stop the progress of wealth, it derives no benefit from the harm it does. May this lamentable result enlighten monopolizing nations concerning the useless crimes of which they render themselves guilty towards other nations, and recall them to sentiments more congenial with their true interests! Were they even to open the ports of their colonies to the commerce of all nations, they still would find numerous advantages in the possession of territories of immense extent, of invaluable fertility, the productions of which cannot answer the demand, and which productions, by their variety and novelty, as well as by their plenty, insure to them infinite advantages in the balance of general commerce.

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\* *Wealth of Nations*, vol. ii. pages 449, 450, 452, 453, 457, 458, 459.



Let us, therefore, conclude, that the monopoly of colonial trade is a method of commerce as defective as that of privileged companies and corporations, and ought to be universally condemned for the interest of public and private wealth.

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## CHAP. VIII.

### *Of Treaties of Commerce.*

**HAD** nations at all times possessed correct notions of the circulation of the produce of labour or commerce, they never would have thought of confining it within the extent of a country, and frequently within a separate district of the same empire.

But almost all having at first imagined that it was advantageous for them to insulate themselves, to refuse communicating with other nations, and to keep their means and their resources undivided; it happened that, in proportion as political economy made any progress, enlightened nations availed themselves of every circumstance calculated to open a market for their produce among other nations, and to introduce new means of exchange into their own country.

Accordingly, treaties of commerce have been entered into by certain nations for the mutual exchange of the produce of their labour. Are such treaties favourable, or detrimental to the progress of public and private wealth?

The principles established in this work render the solution of this question extremely easy.

When treaties of commerce are limited to the establishing of a trade between two countries, which before had no dealings with each other, such treaties are evidently beneficial to both countries, and must accelerate the progress of their labour, industry, and wealth.

But when these treaties are exclusive; when, while they allow the circulation of the produce of the labour of the two nations, they exclude the circulation of the produce of other countries, or only tolerate it on burthensome conditions; they are less beneficial, because they establish a monopoly which must lower the price of productions with regard to the producers, and raise it with regard to the consumers; and, consequently, they discourage production by diminishing consumption. The trade, under such circumstances, is not very profitable; yet it is more so than if the treaty had not taken place at all.

All questions, therefore, concerning a trade effected by commercial treaties are of the same nature as those concerning monopolies, and receive the same solution. It is a constant truth, that the limits imposed to trade, whatever may be their nature, are more or less fatal, and that trade is the more profitable and advantageous, the less it is confined and obstructed, and the more it is general.

## CHAP. IX.

*Of Exchanges and the Balance of Trade.*

ALL nations have endeavoured to ascertain their share in the advantages derived from the circulation of the produce of general labour, their proportion of trade to that of other nations, and the extent of relative and absolute power gained through that circulation. Their inquiries were not dictated by an idle curiosity, or an ambitious ostentation; they were instigated by the hope of discovering rules to be directed in by their commercial concerns with other countries. It was supposed that, by restricting these concerns with nations to which commerce is profitable, and multiplying them with those to which it proves disadvantageous, greater benefits would be derived from trade. A particular attention was therefore bestowed upon the balance of trade, and upon the exchange with different places and different countries.

But experience, that great crucible of error and truth, has taught the most superstitious that they were running after vain illusions; that the information to which they attach so much importance, is concealed under an impenetrable cloud; and that, after all, any commerce between two nations is always advantageous to both, though in unequal degrees.

It appears, at first sight, that an accurate register of



all the commodities exported, with the designation of their destination, and of those imported, with the designation of the place of their origin, ought to afford every information that can possibly be desired concerning the nature and effects of foreign trade in a given country. But it ought to have been remembered, that such registers state only the material quantity of the goods exported and imported, and that their declared value is never conformable to their true value. It was, however, supposed, that truth might be approximated within a certain distance: but experience has shewn, that such valuations differ about seventy per cent. from the true value; and hence it is evident, that any calculation on such grounds is impossible. But the same has happened on this subject which generally takes place in such cases. The impossibility of ascertaining by the balance of trade the rate of profit derived from foreign commerce, has led to the belief that such balances of trade are good for nothing. This inference appears as unreasonable as the hopes which had been conceived. Although the balance of trade cannot give the exact results of the circulation of the produce of every country, it may be of service to judge of its acceleration or obstruction, to lead an attentive and enlightened observer to discover the causes of either, and to suggest the means which may prevent its impediments and increase its beneficial effects. I therefore think the balance of exports and imports of great importance; it may afford much valuable information concerning the progressive, stationary, or retrograde state of national wealth.

The subject of exchanges is involved in still more inaccuracy, obscurity, and fallacy, than the balance of trade.

Adam Smith has so clearly discussed this matter, that I cannot do better than quote what he states on the subject.

“ When,” says he, “ the exchange between two places, such as London and Paris, is at par, it is said to be a sign that the debts due from London to Paris are compensated by those due from Paris to London. On the contrary, when a premium is paid at London for a bill upon Paris, it is said to be a sign that the debts due from London to Paris are not compensated by those due from Paris to London ; but that a balance in money must be sent out from the latter place, for the risk, trouble, and expence of exporting which, the premium is both demanded and given,

“ But several causes destroy this consequence.

“ 1. We cannot always judge of the value of the current money of different countries by the standard of their respective mints. In some it is less worn, clipt, and otherwise degenerated from that standard. But the value of the current coin of every country, compared with that of any other country, is in proportion not to the quantity of pure silver which it ought to contain, but to that which it actually does contain.

“ 2. In some countries, the expence of coinage is defrayed by the government ; in others, it is defrayed by the private people, who carry their bullion to the mint ; and the government even derives some revenue

from the coinage. The money of the country which defrays the expence of coinage is therefore more valuable than that of the country which does not defray that expence, because the workmanship adds to the value; consequently the premium for a bill may be merely sufficient to compensate the expence of the coinage.

“ 3. In some places, as at Amsterdam, Hamburgh, Venice, &c. foreign bills of exchange are paid in what they call bank-money; while in others, as at London, Lisbon, Antwerp, Leghorn, &c. they are paid in the common currency of the country. What is called bank-money, is always of more value than the same nominal sum of common currency: therefore the premium paid by London and Lisbon for bills upon Hamburgh and Amsterdam may merely compensate the difference in the value of the currency in which the bills are to be paid.

4. The ordinary state of debt and credit between any two places is not always entirely regulated by the ordinary course of their dealings with one another; but is often influenced by that of the dealings of either with many other places. If it is usual, for example, for the merchants of England to pay for the goods which they buy of Hamburgh, Dantzic, Riga, &c. by bills upon Holland, the ordinary state of debt and credit between England and Holland will not be regulated entirely by the ordinary course of the dealings of those two countries with one another.”\*

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\* Wealth of Nations, vol. ii. pages 221, 222, 223, 224, 227.



In whatever light, therefore, the rate of exchanges may be viewed, it is evident that it gives but fallacious indications of the state of foreign commerce.

There is, then, at present no certain way of acquiring any positive information in that respect; all is conjecture, and of course uncertain. Perhaps it is even useless to attempt it, since it is undoubted that foreign commerce is constantly advantageous to all countries, and the question between them is only about the greater or less advantages they derive from it. But if the exact statement of its imports and exports be almost indifferent to a nation, it is not so with regard to its home-trade, which comprizes the annual produce of its labour and the consumption of that produce. "If the exchangeable value of the annual produce exceed that of the annual consumption, the capital of the society increases in proportion to this excess. The society, in this case, lives within its income, and what is annually saved out of its income, is naturally added to its capital and employed so as to increase still further the annual produce. If the exchangeable value of the annual produce, on the contrary, fall short of the annual consumption, the capital of the society must annually decay in proportion to this deficiency. The expence of the society in this case exceeds its income, and necessarily encroaches upon its capital. Its capital, therefore, must necessarily decay, and, together with it, the exchangeable value of the annual produce of its industry.

"This balance of produce and consumption is entirely different from what is called the balance of

trade\*, or balance of imports and exports. When the former is advantageous, the latter is always favourable; and when the balance of produce and consumption is unfavourable, it is not in the power of a beneficial balance of trade to check or ward off its pernicious influence."

Adam Smith advances in this respect an assertion which it is proper to investigate, in order to ascertain the nature and difference of the two balances.

He thinks that the balance of produce and consumption may be constantly in favour of a nation, though what is called the balance of trade be generally against it. "A nation," he says, "may import to a greater value than it exports for half a century, perhaps, together; the gold and silver which comes into it during all this time may be all immediately sent out of it; its circulating coin may gradually decay, different sorts of paper-money being substituted in its place, and even the debts which it contracts in the principal nations with whom it deals may be gradually increasing; and yet its real wealth, the exchangeable value of the annual produce of its lands and labour, may, during the same period, have been increasing in a much greater proportion. The state of the North-American colonies and of the trade which they carried on with Great Britain before the American war, may serve as a proof that this is by no means an impossible supposition." †

This seems a strange phenomenon. How is it to

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\* Wealth of Nations, vol. ii. page 260.

† Ibidem, page 261.

be credited, that a country which annually exports commodities inferior in value to what it imports, which, we will suppose, purchases abroad goods to the amount of ten millions, and exports produce amounting only to five millions, which of course contracts every year a debt of five millions; how is it to be credited, I say, that such a country should cover this excess of expenditure abroad with an equal or superior excess of its income at home?

The phenomenon is, however, explained in the simplest manner.

The excess of foreign produce imported into a country above the productions exported is not always consumed in the country as part of the national income, but as part of the circulating capital destined to augment the fixed capital which produces a revenue. These five millions are consequently a loan borrowed from foreigners, to increase the annual labour, to embark in undertakings the abundant produce of which does more than cover the loan and the interest or profit due to the creditors. In this instance alone, it is true that an unfavourable balance of trade is not a proof of declining wealth, and may even prove not injurious to the progressive prosperity of a country.

Were the excess of imports above exports consumed as a revenue, there is no doubt but this excess of consumption would ultimately occasion the ruin of the country.

And this consideration enforces still more the necessity of endeavouring to find out a way to know the balance of annual income and annual consumption.



Is there any such way that can be relied upon as certain and positive?

There is none. We must as yet be contented with mere conjectures built upon an augmented population, and particularly upon the increase of the industrious classes \* and towns, upon the good condition of agricultural buildings, upon the number of acres cleared or inclosed, and upon the facility with which the public contributions are collected.

To those conjectures some add those resulting from the rate of interest of money: but this conjecture is, in my opinion, erroneous and delusive.

A high rate of interest is not always a proof of the declining wealth of a country; on the contrary, it is a proof of its prosperity when this prosperity is progressive. The interest of money must always be very high in countries whose prosperity is progressive, because its agriculture and manufactures, increasing with its population, are always requiring fresh capitals, the demand for which necessarily keeps the rate of interest very high.

A low rate of interest may likewise not be an infallible sign of the wealth of a country being progressive. "A low rate of interest," says *Swift*, "the usual sign of the wealth of a state, may also be a sign of misery, when no one, for instance, wants to

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\* In the mercantile system there is a very simple way for nations to judge at all times of their population and prosperity; they need only to ascertain from time to time the numbers of their manufacturers.—*Discours Fondamental sur la Population, par Herrenschwand.*

borrow, because there is neither industry nor commerce in the country." †

To this observation of Swift's it might be added, that the case is exactly the same with a mere agricultural nation, whose industry has made little progress, and whose commerce is confined to the home-trade; or even with a flourishing nation, the industry of which is stopped, and which is deprived of its foreign trade by extraordinary and prolonged circumstances. Surely, under these different suppositions, the rate of interest might be very low, and wealth yet be on the decline.

It is therefore without any foundation that a low rate of interest has hitherto been ranked among the signs that indicate the progressive, stationary, or retrograde condition of national wealth; this criterion is imperfect, insufficient, and incapable of affording any correct information. The signs which we have pointed out are also merely conjectural; yet they may lead to truth.

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† *Short View of the State of Ireland*, vol. i.

## CHAP. X.

*Conclusion of the Fourth Book.*

THE circulation of the produce of labour effected by commerce has its principle in the passion for enjoyment, which men gratify by interchanging the produce of their labour, industry, talents, knowledge, and genius. This circulation is more productive in proportion as it is less confined, more extensive, and more general. When it extends only from the country to the neighbouring towns, and from the towns to the country, it is slow, weak, and languid, because the produce which it offers to the consumers is calculated only for the most ordinary wants of life. It gains in animation, activity, and usefulness, when it pervades every district, every town, every city, and the metropolis of every country, because it then circulates productions more numerous, more various, better calculated for the conveniency, comforts, and peculiar enjoyments of every country. It attains the highest pitch of grandeur and power, when in its course it embraces all climates, all countries, and all nations, because it then distributes to every consumer the produce of all soils, the productions of all kinds of industry, all the riches of nature and labour, and excites every desire, flatters every taste, and gratifies every caprice and every fancy.

Commerce, in its various stages, bestows upon the



different produce of labour a value constantly relative to the demand of the consumers and to the abundance or scarcity of the commodity. This value is always proportioned to the extent of the commerce, to the number of consumers, and to the variety of productions: but in fixing this value, which is sometimes uncertain and frequently arbitrary, commerce generally gives to every producer the equivalent of what his production has cost him. Were this indispensable condition not fulfilled, re-production would be at a stand, and circulation would lose its activity, and perhaps entirely cease. This condition once performed, commerce observes no other law in the distribution of equivalents, but the demand for and the abundance or scarcity of the commodity: and this law is always fluctuating, always uncertain, and consequently always unequal. But this inequality obstructs neither the activity nor the range of the circulation; it only affects the rate of profits; and a small profit is always preferable to none.

Notwithstanding these advantages and the general interest which it must inspire, the circulation of the produce of labour would have met with but an indifferent success, had it not been for the assistance of a preferred produce, which every producer willingly takes at all times in exchange for its produce, because he is certain that the partiality or predilection which he entertains for that produce is common to the producers of all countries.

When money has that indispensable and necessary character; when it consists in a produce universally preferred, and for which all other productions are

willingly exchanged; when public authority contents itself with guaranteeing, as it were, this preferred commodity against the frauds, adulterations, and deteriorations to which it may be liable, money becomes the most active agent, the most powerful spring, and the most useful instrument of circulation.

But it is especially by giving rise to credit that metallic money renders the greatest service to circulation. As soon as it has established credit metallic money appears in circulation merely to regulate the march and to insure the results of credit. Even the liquidation of credit is frequently effected without the aid of metallic money. Banks, when confined to the liquidation of commercial credit, supply the place of coin most successfully, or at least derive but a feeble and trifling assistance from the metallic currency of the country.

The different methods of circulating the produce of labour, such as corporations and privileged companies, the monopoly of colonial commerce, exclusive commercial treaties, and every combination that has been contrived to give another direction to the course of commerce, when it is supposed unfavourable or less beneficial, or to enlarge it when supposed to be favourable, are as many obstacles which restrict and skackle the progress of commerce, and are equally fatal to public and private wealth.

In short, nations ought never to forget that the circulation of the produce of labour is always beneficial, and that the only way to reap all its benefits is to render commerce safe, free, easy, and general.

## BOOK V.

ON THE VARIOUS SYSTEMS CONCERNING THE  
NATIONAL INCOME AND CONSUMPTION.

## CHAP. I.

*Of the National Income.*

ALL systems of political economy agree in making the national income consist in the produce of annual labour. The spontaneous productions of the soil, of mines, and of the waters, are not very considerable, and require besides a certain portion of labour to be gathered and brought to market ; they must, of course, be ranked among the produce of labour.

Income is either private or public. But these two denominations are merely two different manners of viewing income ; they neither alter its nature nor its quantity. All authors, on subjects connected with political economy, unanimously teach, that the national income is composed of the private income of the members of the nation.\*

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\* Sir William Petty—George King—Mr. Hooke—Sir William Pulteney—Adam Smith—Dr. Beeke—Physiocratie, page 113.—Philosophie Rurale, page 150.



One noble author alone thinks that this opinion, "though universally prevalent, must be deemed false and unfounded by every man who considers the subject, after having formed and familiarized himself to an accurate and distinct opinion of the nature of value."

"It must appear," says the Earl of Lauderdale, "that a commodity being useful or delightful to man, cannot alone give it value; that to obtain value, or to be qualified to constitute a portion of private riches, it must combine with that quality the circumstance of existing in a certain degree of scarcity. Yet the common sense of mankind would revolt at a proposal for augmenting the wealth of a nation by creating a scarcity of any commodity generally useful and necessary to man.

"Let us for a moment suppose it possible to create as great an abundance of any species of food as there exists of water; what would be thought of the advice of a man, who should cautiously recommend, even at the moment of the pressure of scarcity, to beware of creating this boasted abundance? For, however flattering it might appear as a remedy for the immediate evil, it would, inevitably, diminish the wealth of the nation. Yet, ridiculous as this opinion might appear, as every thing which partakes of the abundance of water or air must at once cease to possess value; it follows that, by occasioning such an abundance, the sum total of individual riches would most certainly be diminished to an extent equal to the total value of that species of food, the value of which would by this means be destroyed.

“ At present, the capital of the national debt of Great Britain amounts nearly to five hundred millions sterling. We have seen, and know, that war, even in the course of the first year, may sink the value of this capital twenty per cent. ; that is, that it may diminish the mass of individual fortunes one hundred millions ; and thus impose upon any man, who made up the account of public wealth on the principle that an accurate statement of it was to be derived from adding together the fortunes of individuals, the necessity of saying that one hundred millions of our wealth had vanished.

“ But this is not all. The value of many things sinks at the same time. In the value of land in particular, we have seen a considerable diminution, which would create the necessity of a further reduction in this statement of public wealth. Yet the surface of the national territory remains unaltered ; the landlord receives the same rent ; the stock-holder is paid the same interest ; and there is no one thing on which a man can lay his hand as an article of national wealth, which does not appear to retain the same qualities that rendered it either useful or desirable.

“ If we could further suppose nature to bestow on any community, or art to procure for them, such an abundance, that every individual should find himself in possession of whatever his appetites could want, or his imagination wish or desire, they would possess the greatest degree of national wealth ; though under such circumstances it is impossible that any commodity could obtain the attribute of value : for, like water and air, all commodities that partake of their abun-

dance, must at once be divested of value, or of the possibility of constituting any part of individual riches."\*

I shall not follow the noble Earl in the very extensive developements which he has given to his opinion; they would add nothing either to the distinctness or demonstration of his thoughts, and would not render the question, which he has started, either more difficult or more important, as the most simple reflection is sufficient to resolve it.

The produce of general labour, whether in the hands of individuals, where it forms private income, or diffused all over the country in the shape of national income, is partly consumed by the producers, and partly exchanged, with the view of the objects obtained in exchange being consumed either by the producers or other classes of consumers.

If the produce consumed in the place of its production be abundant, its plenty contributes alike to public and private wealth, and establishes no difference between those two sorts of wealth.

If, on the contrary, that produce be rare, its scarcity impoverishes alike the individual and the public, and public and private wealth is equally a sufferer.

With regard to the produce exchanged by the producers, if the exchange takes place with a foreign country, its abundance turns to the benefit of the foreigners, who purchase it with the same values which they used to give for it, unless the foreign

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\* An Inquiry into the Nature and Origin of Public Wealth, and into the Means and Causes of its Increase, by the *Earl of Lauderdale*, chap. ii. pages 43, 45, 48.



country should have been favoured with a like abundance in its own produce ; because, in that case, plenty is equally beneficial to the foreigners and the natives, and in both cases private and public wealth remains the same.

If, on the contrary, the produce exchanged with the foreign country is scarce, the foreigners are sufferers by this scarcity. They give the same quantity of produce in return as in the times of plenty, because their produce could not find any other employment; and if the harvest has been as bad abroad as at home, then the two countries suffer alike by this common scarcity ; and in both cases, public and private wealth either continues in the same situation or undergoes the same alteration.

Finally, if the exchange of national produce take place at home, its plenty becomes beneficial to the consumers without any loss to the producers, because the latter always receive the same value which they usually received from the consumers. But, in a case of scarcity, the loss is to the consumer, yet without any benefit to the producer ; because the consumer can only give him the usual value : consequently, there is, in both cases, neither loss nor profit for private and public wealth.

It must, however, be acknowledged, that when either abundance or scarcity is excessive and extraordinary, it is more or less fatal to the producer or to the consumer : but in no instance does such an event produce any difference between public and private wealth. If, in the case of excessive plenty, the wealth of the producer be diminished, that of the

consumer is augmented; the one gains what the other loses; and public wealth, which consists of individual riches, experiences no change from the loss of the producers and the gain of the consumers. The case is the same when the latter are losers, and the producers gainers; the loss and the gain, with respect to general wealth, is compensated, and the situation is the same as if there had been neither loss nor gain in all private exchanges.

If, therefore, we regard merely the merit of the difficulty started by Lord Lauderdale, I have, perhaps, assigned too much importance to the solution of the difficulty: but if it be viewed in all its consequences, it will be seen that it was my duty to neglect no means to prevent the noble Earl's opinion gaining any credit. Though the identity of public and private wealth be undoubted, and the danger of drying up the source of the former by bearing too hard upon the latter be imminent, yet private wealth has not always met with the regard to which it is entitled; what, then, would be the consequence, if any, even the smallest doubt, were ever entertained concerning that identity; if a source could be assigned to public wealth, different from that of private riches; and if governments should persuade themselves that the decay of public wealth is no-wise injurious to private riches, or that private riches may be impaired without injuring national wealth? Apprehensions of this kind can never be realized, when governments are fully convinced of the identity of public and private wealth; and there is something extremely consolatory and beneficial in this opinion, which must not be

suffered to be shaken, and must be vigorously defended, because it is on this truth that the maintenance of social order, the progress of public wealth, and the amelioration of the condition of mankind are, in some degree, depending.

The produce of annual labour, whether it be viewed as private or national income, is distributed in the shape of wages of labour, profit of stock, or rent of land.

The French economists were well aware that this distribution ought to take place according to regular and general laws; but instead of seeking for these laws, they created them conformably to the system which they had adopted.\*

Adam Smith was better informed, or more fortunate. He discovered these laws in the very nature of things.

He states that the distribution of the national income is naturally regulated by the progressive, stationary, or retrograde state of national wealth. When wealth is progressive, more produce of the annual labour is distributed in wages of labour, profit of stock, and rent of land. When wealth is stationary, a smaller quantity of that produce goes to the labourers as wages, and to the land-holders as rent; and the profit of stock remains as before. When wealth is retrograde, the wages of labour sink so low that they are scarcely adequate to supply the most urgent wants of the labourers; rents also suffer a considerable diminution; but the profits of stock expe-

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\* *Physiocratie ; Tableau Economique.*



rience, on the contrary, a rise corresponding with the decline of national wealth. Not to be struck with the justness and truth of these laws, and to withhold a tribute of praise and admiration from the mind that discovered them, is equally impossible.

To these general and fundamental rules of the distribution of the produce of annual labour, Adam Smith has added some particular ones for the wages of different labours, the profit of different capitals, and the rents of every different kind of soil.

I have already explained his doctrine concerning the wages of different labours, (book ii. chap. 7,) and the profit of different capitals, (book iii. chap. 5.) I shall therefore confine myself to a few observations on that part of his doctrine which relates to the rents of land, of which I have not hitherto had an opportunity to speak.

The writers on political economy are not agreed upon the causes which establish the rent of lands.

The French economists derive it from the original advances of the land-owner in clearing the land and putting it into a state of cultivation.

Adam Smith has combated this opinion with arguments drawn from the circumstance that land-owners demand a rent even for unimproved land; that those improvements are sometimes made by the stock of the tenant; and that land-owners sometimes demand rent for what is altogether incapable of human improvement.

He therefore regards the rent of land, considered as the price paid for the use of the land, as a monopoly-price, which is always determined by what

is left to the farmer after he has paid the wages of labour and deducted the customary profit of stock.\*

This first point being once established, Adam Smith displays all the sagacity of his mind to class, according to general rules, the lands which always afford a rent, those which sometimes may and sometimes may not afford rent, and those which do not afford any rent. He has even endeavoured to class the different kinds of cultivation, according as they produce food, clothing, materials for dwellings, or articles that satisfy fancies and caprices : but his rules are overloaded with so many exceptions, they depend on so great a number of circumstances, and may be so easily criticized, that the impotence and inability of his efforts are felt at every page, at every line. We see that he is struggling in vain against the force of things, and that he cannot establish generalities where nature has dealt in individualities. Thus, after having laid it down as a principle that the rent of wheat-lands regulates in Europe the rent of all other cultivated lands, he is forced to acknowledge that, in many cases, meadows, vineyards, olive-grounds, mines, quarries, and even forests, yield a higher rent than wheat-lands. It is true that he has again attempted to generalize the particular cases. But these uncertain classifications were hardly worth the trouble which they cost him, since the rent of all lands, whatever be the mode of cultivating them, is always limited to that portion of produce which remains after deduction of the wages of labour and profit of stock ; and since

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\* *Wealth of Nations*, vol. i. pages 250, 251.

this portion is more or less considerable according as the state of wealth is progressive, stationary, or retrograde. Beyond these rules there is nothing but doubt, obscurity, and uncertainty. These are the bounds of the science.

The laws then which regulate the distribution of the annual produce of labour in the shape of wages of labour, profit of stock, and rent of land, are plain and positive, and can no longer be mistaken.

Of all the authors that have recommended a strict attention to those laws and developed their advantages, none, I think, have done it more successfully than the Earl of Lauderdale and Count Verri.

“Commerce,” says the latter, “is so much the more active, as wealth is more equally distributed and diffused among a greater number of individuals. We see indeed, that in countries where wealth is badly distributed, where a naked and famished multitude afford a striking contrast with a small number of individuals overflowing with riches, the dealers in foreign and national commodities are few, and the prices of goods so high that little is exported. The annual re-production is reduced exactly to the absolute necessary. The soil where generations of oppressors and oppressed succeed each other, is barren or uncultivated; every thing withers, every thing is dead, until an enlightened legislator has the inclination and the power to point out the true road, and to cause it to be followed.\*

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\* *Della Econom. Polit.* § 6.



The Earl of Lauderdale presents the same opinion in a stronger and still more striking light.

“The distribution of wealth,” says the noble Earl, “not only regulates and decides the channels in which the industry of every country is embarked, and of course the articles in the production of which it excels; but a proper distribution of wealth insures the increase of opulence by sustaining a regular progressive demand in the home-market, and still more effectually by affording to those whose habits are likely to create a desire of supplanting labour, the power of executing it.” To support this opinion, Lord Lauderdale quotes a passage of *Bacon*, which proves that this vast and profound genius had a glimpse of every useful truth.

“Above all things,” said Bacon, “good policy is to be used, that the treasure and monies in a state be not gathered into few hands. For, otherwise, a state may have a great stock, and yet starve. *And money is like muck, not good except it be spread.*” \*

Lord Lauderdale has not contented himself with rendering sensible the advantages of the distribution of wealth and of its circulation through all classes of civilized society; he has carried his views farther, and inferred, from the present tendency of all nations to favour this circulation, that the industry which is employed in supplying the wants of the multitude, must always prosper more and more, whilst that which labours only for the luxury, pomp, and vanity of the higher and opulent classes, must insensibly decline. This consequence, which affords to his Lordship

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\* *Lord Lauderdale's Inquiry*, chap. 5, page 349, 353.

an opportunity of congratulating his country for the useful direction it has given to its industry, points out to other nations the conduct which they ought to pursue to increase or preserve their wealth.

Thus the public and private income consist of the annual produce which is distributed in the shape of wages of labour, profits of stock, and rents of land; and this distribution is regulated by the progressive, stationary, or retrograde state of national wealth. The observation of these laws is of the utmost importance to the progress of wealth, and forms one of the fundamental principles of political economy.

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## CHAP. II.

### *Of Consumption.*

CONSUMPTION bears a necessary and indispensable proportion to the national income; but that proportion has not yet been invariably fixed.

The French economists think that consumption ought to be equal to the income, and allow no economy but in that part of the annual income reserved for the land-owners as the net produce of their lands\*.

Adam Smith, on the contrary, teaches that consumption ought to be inferior to income; it is on the surplus of income that he chiefly founds the progress of national wealth. He even goes so far as to say,

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\* *Physiocratie*, Tableau Economique.

that “ parsimony, and not industry, is the immediate cause of the increase of capital.” \*

Finally, some authors condemn economy, regard consumption as the measure of re-production, insinuate that income proportions itself to expenditure, and that people are the richer the more they spend. Whence it follows, that luxury, that superlatively extravagant consumer, is the most powerful spring of wealth; a consequence this, which renders the theory a little suspicious, and obliges us to investigate it with careful attention.

When an individual consumes more than his income, the surplus must be taken from his capital, which is gradually diminishing, and the diminution of which diminishes his income in the same proportion. If his expence exceed his income every year, a time must come when that individual, having neither income nor capital left, is obliged to labour for his subsistence, or to be indebted for his maintenance to public charity.

What is true of one individual, is equally so of several individuals, and even of a whole nation. If, which is impossible, all the individuals composing a nation should spend every year more than their income, the period might be foretold when they would be absolutely ruined; or when the population would be so much diminished, that, on the same soil on which there stood formerly great cities, numerous towns, and numberless boroughs and villages, there would scarcely be seen a few scattered villages and some wretched hamlets.

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\* *Wealth of Nations*, vol. ii. page 14.



Those who are unacquainted with the progress of wealth, and do not understand how it is formed or how it is destroyed, find some difficulty in conceiving this result of expenditure above income: but it may easily be rendered obvious and evident even to the most ignorant.

The surplus consumed beyond the individual income is taken from that portion of the annual produce reserved for the advances of labour, or, in other words, from the fixed and the circulating capital: Deprived of this portion of capital, the merchant suffers his vessels, his waggons, his warehouses to decay, and no longer circulates the same quantity of merchandize; the manufacturer does not keep his machines, his tools, his work-shops in repair, he no longer selects his raw material with the same care, and employs no longer the same number of hands; the farmer witnesses the decrease of his cattle, the decay of his farm buildings, of his plantations, of his ploughs, of his implements and instruments of husbandry, and can no longer bestow the same manure and the same labour upon his fields; lastly, government suffers national monuments, high roads, canals, harbours, and public establishments, to go to ruin. The communications are interrupted, the various districts of the country are isolated and impoverished through this isolated state; the annual produce is successively diminished, so that, at no very distant and much less remote period than is generally supposed, the cattle destined for agriculture and the conveyance of commodities disappear, public and private buildings tumble in ruins, the soil is left

uncultivated, the population has perished or emigrated, and the traveller who had seen that country in a high state of cultivation, well peopled, and rich, and beholds it again poor, uncultivated, and as it were uninhabited, is afraid of having lost himself, and does not know to whom to apply to calm his fears and his uneasiness. Numerous are the examples which the history of antiquity and the middle age affords of such dreadful catastrophes. What is become of the powerful empires of Asia; of that wealthy and populous Egypt, still famous for its monuments and its ruins; of the innumerable republics of Greece; of the opulent cities of Asia Minor? There is no vestige remaining of their wealth, of their power, and of their grandeur. Their destruction and ruin are generally attributed to the evils of war, the ravages of time, national calamities, and a number of political and moral causes: but it would be easy to shew that all these causes would have been transitory, of short duration, and rapidly remedied, if the burthens laid upon the people by their lawful governments, or by blind or improvident conquerors; beyond their annual income, had not deprived them of the means of repairing by their industry the evils inflicted by the ravages of war and the imbecility of their governors.

The excess of consumption above income may therefore occasion the ruin of nations, as it does the misery of individuals.

It is true that, in the mercantile system, when the generality of the people obliged to labour experience every day the difficulty of providing for their subsistence, and know how to appreciate the advantages of

economy and capital, there is no danger that great numbers will addict themselves to a fatal dissipation, rush into misery, and dig the precipice which is to engulf public and private prosperity. All wish to turn to advantage what they have economized, and wealth is formed, maintained, preserved by the labour, and increased, extended, and consolidated by the economy of all. The dilapidation of private individuals is as little injurious to national wealth, as the penurious avarice of a few is detrimental to its progress. The power of general labour repairs private errors, nearly in the same manner as the plentiful harvest of one province covers the losses which bad seasons occasion in some districts.

But this advantage, it must be acknowledged, is peculiar to the mercantile system of modern nations, and is not to be found in any other system.

In the economical system of the nations of antiquity, among which there were but idle men and slaves who performed the general labour, prodigality, profusion, dissipation, and luxury, were equally prejudicial in a moral and economical respect.

Luxury, by destroying the fortunes of the first families of the state, ruined the patricians, and converted aristocratical governments into oligarchical and monarchical governments into despotical ones ; or if it gave birth to new fortunes besides those of the patricians, aristocracy degenerated into democracy, or monarchy into aristocracy ; so that the division of large fortunes essentially altered the political system of the state.

On the other hand, luxury, by scattering the for-



tunes of the first families of the empire, afflicted the people with the lamentable sight of decayed patricians stripped of wealth and credit, it vitiated public morals, broke the bonds of civil and political dependence, caused the inequality of conditions to disappear, corrupted private manners, and destroyed every notion of order, consideration, and respect.

Finally, by absorbing the capitals of a great number of families, luxury diminished the quantity of labour which they would have supported, weakened the national income, and impoverished the state. Such capitals, by being scattered among a number of individuals, instead of encouraging them to labour, frequently incited them to a greater consumption, and consequently contributed to increase the general misery.

It is therefore very justly that all the authors of antiquity recommended economy, nay, honoured parsimony; and imputed to luxury the decay of morals, the ruin of private fortunes, and the loss of the state. In such an order of things, avarice was a virtue, and luxury a sort of public crime.

In the middle age, under the feudal system, at a time when the state was divided among great and petty land-owners and bondmen, and when the political constitution was purely aristocratical, it was thought necessary to guard against the dissipation of large fortunes, which were justly considered as the basis of the state. This gave rise to the laws of primogeniture and entail, and others which it is useless to enumerate here. But these political laws, by preserving fortunes in families, impoverished all the

individuals of the nation. They enriched a few at the expence of all, and created general misery to establish a few private fortunes. What luxury could ever have been pregnant with greater calamities!

However, every enlightened individual who was initiated in the mystery of that legislation, justly lifted his voice against luxury, and condemned it with as much severity as the nations of antiquity.

Inheritors of their doctrine, our political, moral and economical writers have almost all re-produced it in their writings; and though this doctrine be no longer applicable to our manners, to our interests, to our politics; though it be as fatal to us as it was beneficial to the people for whom it was designed, it still predominates in our books; and all that the boldest innovators have dared to advance is, that luxury becomes prejudicial only when it deprives the prodigal of the means of performing his individual, domestic, and social duties. Will men then never cease to judge of the present by the past, and of the future by their fears; will they not at length perceive that, whatever may be the circumstances that have led modern nations to the mercantile system, their political, moral, and economical condition has no conformity with and bears no relation to that of the nations of antiquity and the middle age? If those nations were interested in condemning private luxury, the moderns have nothing to dread from it, and need not take any measures to repress or to guard against luxury. Wherever wealth proceeds from general labour, there is no danger that it will be dissipated by the private luxury of a smaller or greater number of individuals.

The general tendency of commercial nations can never be towards dissipation, luxury, and magnificence.

But that which is not to be apprehended from individuals, may be done by governments; and it is in this respect only that wealth may run some risk.

The revenue of governments generally consists of contributions levied upon individuals. If, either from a love of luxury and magnificence, or from the passion of conquests, or from a bad economical system, or from a vicious administration, these contributions are raised to an excessive height, the efforts of the individual members of the nation, to repair by their labour and economy the evil of an excessive expenditure of government, must prove abortive. If this expenditure, coupled with that of the individual members of the nation, exceeds the annual produce of the national labour, the aggregate of the nation is placed in the same predicament as an individual who spends more than his income. Capitals are swallowed up, labour is left to pine, its produce is diminished, population reduced, and the impoverished nation declines, and is perhaps exhausted to such a degree that it is no longer ranked among free and independent powers.

Though it be therefore of little importance in the mercantile system, whether some individuals consume above their income or not, both the prosperity and the safety of the state require that the totality of the nation should not consume more than the portion of the annual produce reserved for general consumption. To suppose that, the more there is consumed, the more is produced, is, as has been well observed by a



modern writer, to suppose “ that it is as easy to produce as to consume ;” that the powers of labour are inexhaustible, and its produce unlimited. Such a monstrous doctrine could proceed only from absolute ignorance of the causes of the formation and preservation of wealth ; which ignorance ought to be completely dispelled by the progress of political economy, and the propagation of its salutary and conservatory tenets.

Individuals and nations cannot possibly consume more than their income without exposing themselves to certain ruin ; they ought not even to consume as much as their income. Whenever they do so, their condition becomes precarious, and national wealth is endangered by the many accidents of life, national calamities, and all the evils which are continually assailing the human race. Every national calamity inflicts an injury upon capital, affects labour, diminishes its produce, impoverishes the nation, and, in proportion as it is serious and lasting, influences its power and the grandeur of its destinies.

A distinction ought however again to be made between individuals and the state.

Although the expenditure of individuals should fully absorb their income, it not only is not prejudicial to national wealth, but may even contribute to its increase. The desire of comforts, the relish of enjoyments, and the love of pleasure, are powerful incitements to labour, and induce the labourer to multiply the produce of his labour ; and in that case it may truly be affirmed, that he labours more in pro-

portion as he consumes more, and that he is so much the richer, as his expences are more considerable. In this instance, those few economical and moral writers are perfectly right, who praise luxury, and attribute to it a large share in the increase of modern wealth, and even in the civilization of individuals and nations.

A modern French writer opposes this system, and asserts that consumption is not a cause, but an effect; that, in order to consume, it is necessary to purchase; and that people purchase but with what they have produced\*.

This opinion, if it were correct, would completely overthrow the mercantile system, which this author has however praised and extolled throughout his work. We must therefore regard it as a mere mistake proceeding from inattention. Yet it must be refuted, because it attacks the fundamental principles of the science.

The mercantile system rests on the interchange of the produce of general labour; but the progress of this interchange would have been slow and perhaps even uncertain, if it had always been considered as necessary that the exchanged produce should really exist at the time of the exchange, and if people could have procured what they had not, merely with what they had. But through a combination peculiar to the mercantile system, people obtain what they have not, with the mere promise of furnishing another produce not yet existing. The simple promise of giving a commodity at some future time is equivalent to the

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\* *Jean Baptiste de Say*; *Traité d'Econ. Pol.* Paris, 1803.

actual delivery ; hope is invested with all the prerogatives of reality ; and, what is not one of the least remarkable phenomenons of this system, hope is not deceived, and the promised commodity is generally produced, because it has been promised. Strip the mercantile system of credit, enforce the actual realization of every purchase and sale, and, from that instant, more than half of the produce of labour will remain on hands without finding a consumer ; from that instant, more than half of the labourers will starve, and the annual produce will be diminished by half.

The same author adds, in support of his opinion, that the best way of opening markets to the existing produce is to multiply and not to destroy them.

This pompous paradox gives to political economy a mysterious and transcendent appearance little calculated to gain it friends among men of intellect, or to place it within the reach of attentive and studious inquirers.

He who wants to consume the commodity produced by another, must undoubtedly give an equivalent for it ; he does not obtain it for nothing. But must he have that equivalent ready, when he demands or gets the commodity of another ; or, to use the very words of the author whom I am refuting, “ is the quantity of the commodities demanded, determined by the quantity of commodities in existence ? ” Undoubtedly not. The quantity of the produce in request may just as well be determined by the quantity of commodities which are expected and intended to be produced ; and provided their production takes place at



the appointed time, the interchange is as perfect as if the objects produced after the exchange had existed at the instant when the exchange took place.

When a manufacturer employs one thousand pounds in the establishment of his manufacture; when a merchant purchases goods to the amount of ten thousand pounds; when a ship-owner loads his vessel with merchandize amounting to twenty thousand pounds in value; every one of them perhaps has not effects amounting to the tenth part of the commodities entrusted to him, and which he may consume or dissipate at his pleasure; and yet, if the proceeds of the manufacture, of the trade, and of the venture, produce the equivalent of the values consumed, the result is precisely the same as if the commodities produced after the exchange had existed at the time of the exchange.

Should it be objected that the manufacturer, the merchant, and the ship-owner, are not consumers, but mediators between the producer and the consumer, and that the interchange of which they are the agents is only completed by the return of the equivalents of the commodities exchanged; I observe that frequently these equivalents arrive but six months, twelve months, or two and sometimes three years, after the consumption; often even the commodities consumed have served to produce their equivalent, and had they not been advanced, the equivalent would never have existed. There is therefore no necessity that the quantity of commodities in request be equal to the quantity of commodities actually pro-

duced. It is almost always proportioned to the quantity of produce expected, and provided this expectation be not disappointed, (and in general it is not disappointed,) wealth proceeds as rapidly and as safely in its growth, as if the quantity of commodities in request were equal to the quantity of commodities in existence.

But if individuals may consume not only up to their actual income, but even up to that which they may obtain through additional labour, the case is not the same with government. When its expenditure, collectively with that of the nation, equals or exceeds the produce of general labour, all the calamities may be dreaded which result from the equality of consumption with production, and, above all, from the excess of consumption above production. Whatever be the authority of government, whatever be the attachment of the nation to its government, and whatever plans may be devised, it is not absolutely certain that the contributors to the public expences will proportion their efforts to the magnitude of the burthen, that the produce will be equal to the increased consumption, that the balance will be in favour of the produce, or even that the equilibrium will be restored by additional labour or more economy. It is to be feared, on the contrary, that excessive contributions will discourage the contributors, and that they will labour less in proportion as they have more to pay. In short, wealth in this critical situation runs so much greater risks, as the evil is certain and the remedy unknown,

It is therefore the interest and duty of governments not to suffer the public expenditure to exceed that portion of general produce which is over and above individual and private consumption. On their moderation depends the wealth of modern nations. Governments alone can paralyse it, or give it an unlimited impulse. Let them beware of checking the private and general efforts of labour, the universal tendency of all individuals to produce, to preserve, and to amass; and wealth will be unbounded, and their power will increase abroad and at home in the proportion of national wealth.

A nation cannot be styled rich and flourishing, unless its private and public expences be inferior to the produce of general labour, or unless it have every year a surplus left; and its wealth is so much the larger, as this surplus is more considerable.

Whenever the private and public consumption of a nation is inferior to the annual produce of general labour, the surplus is employed by every class of labourers in extending their labour, and in increasing and improving its produce.

The farmer devotes his surplus to augment his stock of cattle, to bestow more manure and more labour upon his lands, to inclose and to fence his fields, to keep in good repairs the buildings destined to store his produce, and to improve the engines, tools, and implements of husbandry.

The manufacturer gives a greater perfection to his machines, bestows more care upon the selection of raw materials, and, by giving higher wages to his



labourers, he makes them work more, and obtains a larger and a better produce.

The merchant enlarges his speculations, extends his correspondence, explores new markets, and sells more.

All these ameliorations can only be effected by additional labour. But this surplus of simultaneous labour must be acquired in the first instance through the existing labourers, and it cannot be obtained but by offering them higher wages. The first effect of the annual surplus of income above consumption, or of the growing wealth of a country, is therefore a rise in the wages of labour.

This rise in the wages of labour would go higher every year with the annual surplus, and would be unbounded, if the number of labourers was not increased. But it is in the nature of things, that as soon as a labourer finds his situation rendered comfortable by high wages, he seeks to share his comforts with a wife, and their union is blessed with children in proportion to their comforts. Thus the disproportion of the number of labourers to the demand occasions high wages, and these high wages, in their turn, restore the proportion between the labourers and labour; and at the end of a certain time, increasing wealth has no other effect than to increase population.

If such be the inevitable effect of an annual surplus left to itself, if it have the double property of raising the wages of labour and increasing the population, two inexhaustible sources of wealth and power;

it is much to be deplored, that such salutary effects are so frequently disturbed, obstructed, or impeded, by numberless political, economical, and administrative regulations.

There are then fixed and positive laws which determine the true proportion of consumption to income. Whenever private and public consumption exceeds the national income or the total produce of general labour, capitals are exhausted, industry pines, produce is diminished, the wages of labour sink, the population decays; nations are impoverished, and frequently leave no vestige of their existence but in the pages of history and in the monuments of their ruin.

When private and public consumption is equal to the produce of general labour, individuals possibly may not be sufferers, they may enjoy a happy and tranquil existence, and population and wealth may even attain some splendour.\* But this prosperity is precarious, dependent on every passing event; the least shock is sufficient to precipitate such a colossus from its slender foundation, to destroy the golden

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\* The author even says: "Et il ne seroit pas étonnant que la population et la richesse s'élevassent à une très-grande splendeur." But if a nation consume exactly as much as it receives, it grows neither richer nor poorer: and it is difficult to conceive how population and wealth can attain any splendour, when they are running the most imminent risk of retrograding. Wealth cannot be increased without receiving an addition, and it cannot rise to splendour without being increased.—See *Boileau's Introduction to the Study of Political Economy*, page 250.—T.

statue resting on feet of clay, to hurl a flourishing people from the pinnacle of grandeur, and to bend their necks under the yoke of a conqueror.

Individuals and nations enjoy a solid and permanent prosperity only when private and public consumption does not absorb the general income ; when the surplus produce, that is annually accumulated, is not diverted from its destination by the political constitution of the country, or the economical and administrative measures of government, nor concentrated in some favoured classes, or among a few privileged men ; when, being left to the individual by whom it has been saved, it augments the sum of labour, raises the wages of labourers, increases population, develops industry, multiplies wealth, and places public power on the immoveable basis of population and wealth.

Adam Smith has inquired whether there be one kind of consumption more proper, more profitable, and more favourable to the wealth and power of nations ; and he demonstratively shews, that property, expended in durable commodities, or in accumulating goods that have a lasting value, is more beneficial to private economy, and of course to the increase of public capital, than that which is expended in commodities as frivolous as trinkets and all the trifling ornaments of our garments and furniture.

It ought, however, to be remembered, that though it may be advantageous to wealth that the expences of individuals and nations should preferably be directed to solid and lasting commodities, it may yet not be indifferent to the individual character and manners of



nations, and perhaps to the general prosperity of the world, that the tastes of nations be various, that their enjoyments be multiplied, and that they be anxious to partake of the treasures of all soils, and of the produce of all labour, industry, and commerce. Though riches are means of prosperity and power, they yet are not the sole object and end of man in his individual and social capacity; and I think it is enough for political economy to point out the road to wealth; the care of applying wealth to the uses most conducive to the happiness of individuals and nations must be left to morals and politics.

## BOOK VI.

CONCLUSION OF THE WORK.

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**T**HE various systems of political economy, thus analysed, approximated, and discussed, form a focus of knowledge which sheds a most brilliant light on the science, brightens the path into the labyrinth of public and private wealth, and affords a glimpse of the end towards which it ought to be directed. The science has not yet, it is true, attained that degree of certainty and evidence which precludes all doubts and controversy among the learned, yet it is sufficiently advanced to prescribe rules of conduct that no country can neglect without rendering herself tributary to the nations by which they are observed, without losing part of her natural and acquired advantages, and without descending from the rank which she ought to hold among other powers.

Political economy is peculiarly entitled to attention and consideration, because wealth, the sources of which it studies and investigates, has been, at all times, among all nations, and under all governments, the constant object of the desires and ambition, of the efforts and combinations of all. And is this to be wondered at? Wealth has always been the basis,

and frequently the measure of private regard, of social distinctions, and of the absolute and relative power of empires. As wealth, among the people of antiquity and the middle age, was wrested from weakness by force, from slaves by their masters, from the vanquished by their conquerors, from a large number of subjugated nations by a domineering people; as it was concentrated in one metropolis, and became the exclusive patrimony of some privileged families, it proved the direct and immediate cause of the troubles and disorders which successively agitated the domineering people, of the revolutions which shook their empire, and of the convulsions which occasioned their decline and fall. The innumerable calamities with which wealth was pregnant, have not escaped the attention of ancient and modern moralists and politicians, and inspired them with violent prepossessions against it. They imputed to wealth every vice, every evil, every crime, in which it had shared; and even went so far as to suppose it incompatible with good morals, with the stability of empires and the prosperity of nations.

But the history of modern wealth, far from confirming this severe judgment, has refuted its errors and dissipated its illusions. Created by general labour, modern wealth has been as productive of prosperity as that of antiquity and the middle age had been productive of misfortunes, crimes, and misery. Modern empires are all indebted to wealth for their independence; for the security of their governments; for the stability of the civil power, that guardian angel of individual safety, private prosperity, and public



liberty ; for the progress of sciences and literature ; for the improvement of the arts, the diffusion of knowledge, and the immense advantages of general civilization.

Undoubtedly, such benefits have not been obtained nor continued for the space of three centuries without some inconveniency, and without a mixture of errors, abuses, and excesses. Every thing is abused : but if such be the condition of the human race, that they may only pretend to the least unfortunate existence, it must be confessed that the economical system, which derives wealth from general labour ; which, through private and individual labour, circulates that wealth among all the individuals and classes of the community ; which, through commerce, extends its circulation to all nations, and makes it the basis of their mutual prosperity and relative power, is much more favourable to the developement of all faculties, all talents, all virtues, all social combinations, and foreign relations, than that which sought for wealth in violence and oppression, and in the misery of mankind ; and it is through an obvious mistake that the two sorts of wealth are assimilated, and accused of the same effects and the same calamities.

According to the economical system of modern nations, wealth consists in the surplus of the produce of the annual labour above the annual consumption ; and nations cannot grow wealthy but by a great application to labour and an extreme attention to economy in consumption. Labour and economy are the true supports of modern wealth.

Labour creates the elements of wealth, and every

species of labour is eminently possessed of this faculty: but productiveness is neither the same nor alike in every kind of labour, and does not always proceed alike in its developements.

Sometimes it requires but the efforts of a single species of labour; sometimes it employs the concurrence of several kinds; at others, it acts only through the moral influence of one sort of labour upon the other. Sometimes the produce of labour exceeds the wants of the labourers, and sometimes it is only equivalent to the wages necessary for their support. Amidst that variety of forms and proceedings under which the productive faculty of labour displays and conceals itself, it has not always been distinctly perceived. Its tract has sometimes been lost, and it has been excluded from certain labours, or attributed to others under certain restrictions. The doctrine of productive and unproductive labour has made much noise, fills a large space in the history of political economy, and counts still some partisans; but the progress of the science has stripped it of all its importance.

Any labour, whatever it may be, contributes physically or morally to production; it produces, or causes other labours to produce, more than they would have done without its concurrence, or without its influence, and in either of these respects it co-operates alike in general production. An unproductive labour could not exist, or could only enjoy a precarious existence. Every one would be eager to shake off a burthen borne with reluctance. But labours that are not imme-

diately and directly productive, must not be confounded with barren and unproductive labours.

Labours that are not productive in themselves, but through their concurrence with another labour, are as productive as the labour with which they concur. It would, indeed, be difficult to deny productiveness to the labour of the inventor and constructor of a plough, which procures to the husbandman a harvest tenfold of what he would have obtained through his sole manual labour.

The case is the same with labours calculated for our entertainment, which, by the enjoyments they afford to the different classes of labourers, induce them to bestow more attention, application, and care, on their labours, in order to obtain a more considerable produce.

Surely the surplus of produce due to the two mentioned kinds of labour, that are reputed barren and unproductive, is their work, their property, and constitutes them as productive as the labours to which productiveness is exclusively ascribed. Wealth is only interested in the totality of produce, and not in the manner of producing it; and with regard to wealth, any labour that increases the sum of produce is necessarily productive.

The erroneous doctrine of unproductive labour owes its rise to the fear of impoverishing the productive labours, by their paying wages to other labours. It has been supposed that such wages being taken from the funds destined for their support, might prove prejudicial to the developement of their faculties,



and perhaps impair their strength ; but this fear is imaginary.

All salaries, when paid freely and voluntarily, are the price of a service requested and received by him who pays for that service ; whether the service be necessary, useful, or agreeable, is of little consequence ; so long as it is demanded, its price is re-produced by more labour and a greater re-production. Unless a nation ruin itself by its diversions, (which is improbable,) it necessarily creates all the produce that is to pay for the pleasures which it voluntarily provides for itself. It is even to the necessity of raising its produce to the level of such salaries that general labour is indebted for its progress, society for its prosperity, and private and public wealth for its indefinite extension.

Far from restraining the developement of the labours calculated for amusement, they ought to be favoured, encouraged, rewarded ; because this is the only way of giving them the greatest intensity, of increasing the population of the country, carrying wealth to the highest pitch, and attaining the highest degree of power to which civilized societies can arrive. It is a delusion to suppose that labours, calculated to amuse, ought only to be maintained by the surplus of other labours ; they would not exist, if they were to wait for that tardy and uncertain event ; they ought to precede, to produce this surplus, and use it to re-produce it and increase its force. Useful labours would stop at the produce necessary for their support, if they were not stimulated by amusements ; and it is only by striving to obtain that surplus of labour to

which amusements give birth, that nations can arrive at opulence.

Let it not be supposed, however, that all amusements indiscriminately have the effect of stimulating productive labours and obtaining a larger produce. They have this effect only when they are paid freely and voluntarily ; the re-production of its price is the absolute condition of the free and voluntary request of the service. When labours are paid by constraint, it is to be apprehended that their forced wages will not be re-produced ; that they are taken from the produce necessary for the support of the labours by which they are paid ; that these labours will suffer from a limited supply of their wants ; that production is diminished in proportion to their privations ; and that wealth, attacked in its source, will be rapidly exhausted.

Except this case, which deserves a peculiar attention, the price paid for amusements by productive labour, is the creator of wealth, and can alone insure its indefinite progression.

The French economists were evidently mistaken, when they thought that agricultural labours ought to be encouraged and amusements restricted ; and that nations are more or less provided with the conveniencies and necessities of life according as the number of those who are employed in useful labour is proportioned to that of those who are not so employed. The labours calculated to amuse are productive like useful labours, and the produce of general labour is always in the compound ratio of both. None therefore ought to be excluded or preferred ; they ought all to be encouraged.

A much more serious difficulty, and the solution of which is much more important to the progress of political economy, is to know which kind of labour is the most productive. All labours are undoubtedly productive, but they are not all productive in the same degree. It is therefore useful to determine which is the most productive.

There is no doubt that the most productive labour is always that labour, the produce of which is most abundant, cheapest, and most easily and most generally sold. Is there any produce eminently possessed of that quality, and can it be had any where at pleasure? I think not. Every country has its peculiar advantages, which other countries may envy, but of which it cannot be dispossessed. Were nations reasonable and alive to their true interests, they would all direct their labour exclusively to the produce which they can obtain in greatest plenty, at the lowest price, and which is sure to find a ready sale every where, because all other countries are deprived of it, or cannot raise it but at a greater expence and of an inferior quality. Were the general labour to follow this direction, wealth would rapidly attain the greatest possible expansion; all nations would share in it in proportion to their natural or acquired advantages, and none would have any reason to complain of its share when conformable to the nature of things and founded upon the eternal laws of necessity.

But nations are very far from giving to their labours a direction which would be useful and profitable to all. Strongly attached to the system of monopolies, of reciprocal exclusions, high duties, and privileges, they



impede the circulation of the produce of foreign labour, even when it is most advantageous ; they condemn themselves to consume none but the produce of national labour, though the most expensive, the least favoured by nature, or least improved by industry ; and they deny themselves the incalculable advantages which each would find in the exchange of its produce for the universality of the produce of other nations. But even when nations persist in this wrong path into which they have been betrayed by error, they ought to prefer the labours of manufactures and commerce to those of agriculture ; because manufactures and commerce are less exposed to chance and more susceptible of improvement ; by varying and multiplying enjoyments, they offer a gradual encouragement to agriculture, and have a salutary influence upon general labour. In investigating the causes of the wealth of nations, men have been more anxious to determine the proper and particular effect of each labour taken separately, than to discover its co-operation with general labour. Calculations extremely ingenious have been resorted to for the purpose of ascertaining the quantity of the produce of each separate labour, as if it did determine the sum of wealth ; and the circumstance has been overlooked, that it influences wealth only up to its value, which is determined by the competition of all other productions, by the want which the commodity supplies, and the demand there is for it. No attention has been paid to the true promoter of all labours, to the enjoyments which all men desire, and to the influence which these enjoyments have upon labour in general : on the contrary, amuse-

ments, to which we are indebted for those enjoyments, have been stigmatized as unproductive. Men have flattered themselves with arriving at wealth by privations sooner than by enjoyments; and the necessities of life have been supposed a safer guide than superfluities. To commit a greater mistake is impossible, and how the genius that has carried the torch of light into the dark recesses of political economy could be betrayed into this mistake, is inconceivable: but there are truths which are not perceived before all errors are dissipated, and which derive the brilliancy of their evidence from the truths by which they are preceded and surrounded. Had it not been for the discoveries derived from particular inquiries into the labours of agriculture, manufactures, and commerce, and into useful labours and those that are not so, we should feel little disposed to believe in their reciprocal influence upon general labour, and we should reject the consequence were not its premises demonstrated. Let us, therefore, beware of arraigning the founders of the science for not having reached the goal; let us not forget, that it was they who pointed it out to us, and that it is only through their assistance that we attain it; and whilst we reap the fruits of their efforts, let us pay them that tribute of admiration and gratitude to which they are intitled.

Though all private labours are contributing to production and wealth, they are yet subject to the influence of several causes which accelerate or retard their progress, and favour or endanger their success.

In agricultural labours, concentration of labour, or large farms, increase the power of the farmer, econo-

mize the expences of cultivation, and multiply its produce ; in manufactures, on the contrary, the division of labour abridges, facilitates, and improves labour, But in all kinds of labour, the slavery or bondage of the labourers, apprenticeships, and corporations, which restrain the choice of labour; and the keeping of wages below the natural rate, discourage the labourer, cause labour to languish, and oppose an insurmountable obstacle to the developement of its faculties, to its prosperity and power ; in short, it is on the liberty of the labourer, on the freedom of selecting his labour, and on the wages of labour being fixed by competition alone, that the progress and success of general labour are depending.

When labour has produced the elements of wealth, economy superintends their consumption, saves the surplus of the non-consumed produce, accumulates it, forms it into capital stock, and seeks the most advantageous employment for this capital. It devotes one part to procure the raw materials of all labours and the advances necessary to the labourer, before the produce of their labour is put up to sale. The funds applied for these purposes form the circulating capital. Another part is employed in the amelioration and enlargement of the existing labours, and in new undertakings, and the funds thus directed to the increase of labour form the fixed capital. A third and last part is reserved for extraordinary consumptions, occasioned by the unforeseen necessities of private individuals and governments, and these funds form the reserved capital stock which is absorbed by private or public loans ; so that all the produce which



economy saves from ordinary consumption, returns into circulation by extraordinary consumption, which restores the equilibrium between consumption and production.

Some philosophical inquirers are afraid of the share which economy necessarily has in the formation of wealth. The term economy, which the vulgar confounds with avarice, and constantly connects with notions of privation, makes them suppose that wealth is obtained only by privations; and hence they disdain riches as too painful and difficult to acquire: but their error arises from the wrong idea they attach to the word economy. In its proper signification, it merely means order, moderation, and the proper direction of necessary, useful, and even agreeable expences; a vigilant severity against profusion and prodigality, and a just proportion between the ordinary expenditure and the ordinary income. The difference between avarice and economy is striking: the miser, like the economist, saves the surplus of his produce above his consumption: but the miser converts that produce into precious metals, which he buries under ground, and which, from that instant, become useless to him and to all others; the economist, on the contrary, employs that surplus in more extended labour, the produce of which he shares with the labourers.

The economist is, therefore, as useful to his fellow-creatures as the miser is useless and detrimental to them; and wealth is as much indebted to the wise moderation of the former, as it suffers by the mise-

rable parsimony of the latter. It is certain that, without economy, there is no capital stock; and without capital there is no improvement or increase of labour, and no resource for the unforeseen necessities of individuals and nations.

Some very enlightened philosophers think that the unforeseen necessities of individuals and nations ought to be preferably supplied out of the produce destined for ordinary consumption: but experience has shewn that it is much wiser to supply them at first from the stock accumulated by economy and reserved for extraordinary expences; and barely to levy upon the stock destined for ordinary consumption a slight tax, which, being continued for a long space of time, suffices to pay the interest due to the capitalist, and to extinguish the capital by means of a sinking fund. This way of providing for extraordinary exigencies leaves to labour all its resources, all its faculties, all its power; the produce of which the labourer is stripped by the tax, is probably recovered by greater efforts, attention, and activity; and the tax thus proves a clear gain to the state; or if the times be so hard, that the tax cannot be recovered by more labour and a greater economy, its burthen will be lighter for being laid on for a greater number of years and for absorbing a smaller quantity of the funds necessary to re-production. In short, the system founded upon the extinction of public debts by means of a sinking fund, has generally prevailed, and promises still greater success, should governments apply it to all extraordinary expences beyond the regular

expenditure of the public service. The utility and advantages of such a plan shall be developed somewhere else.

Finally, theorists are not yet agreed concerning the most useful employment of capital. The most general doctrine is that it ought to be preferably applied in agricultural labour: but I do not think this theory well founded. The prosperity of agriculture is necessarily subordinate and dependent on the progress of manufactures and commerce; to begin by creating an abundant agricultural produce before the existence of the industrious classes, by whom it is to be consumed, is to invert the natural order of things.

The most usefully employed capitals, and the most profitable labours, are those which are devoted to manufactures and commerce.

In the very dawn of political economy, the influence of commerce upon wealth was better felt than known, more praised than studied, more admired than investigated. It was supposed that a country grows rich in proportion to the quantity of gold and silver accumulated by a favourable balance of foreign trade. This system is at present so discredited, that it must be regarded as an antiquated error, barely worthy of being mentioned in the history of the science.

The French economists, who first discovered this fallacy and successfully attacked it, had not, however, any much more correct notions of commerce. They limited its power to the conveyance of the produce of labour from the producer to the consumer, and to the fixing of its value by general competition. To



reduce commerce to a material, and, as it were, mechanical conveyance of goods, is stating only part of its functions, undervaluing its services, confining its influence, and misunderstanding its true property. This depreciating system has met with but an ephemeral success, and can only mislead those who embraced their doctrine with too much credulity or too much levity.

Adam Smith has rendered an important service to that part of the science, not only by refuting the errors with which it was obstructed, but particularly by ascertaining the fundamental principle of commerce, its direction, its effects, and its results. In his opinion, commerce began by the exchange of the produce which the producer could not or would not consume, for another produce that was more agreeable to him, or that better suited his conveniency. This first exchange led all producers to perceive that the interchange of the produce of their private labour afforded the means of selecting, among the productions of general labour, those which they thought it most advantageous or most gratifying to consume. In proportion as this truth was generalised by experience, any labour was considered as a branch of general labour, any produce as a portion of the universal produce, and the total mass of produce as the stock of general consumption. By circulating the produce of labour from the country to the towns, from the towns to distant nations, and from every part of the globe throughout the world, individuals, hordes, tribes, communities, and nations, shared in the advantages of all climates, of all soils, of all countries, of

all manufactures, and the inhabited world became, in the eyes of the philosophical observer, an extensive work-shop, a grand manufacture, where the industry of men prepares all objects of consumption, and an immense market where mankind supply their wants. Such is the origin and such the end of the commercial system conceived by Adam Smith.

This system would be perfect and would form one of the most beautiful parts of political economy, had not Adam Smith derived it from causes unconnected with and absolutely independent of it,

Adam Smith thought that commerce, by receiving its impulse and motion from the interchange of that produce which the producers will not or cannot consume, depends on these labours, on their increase, on their progress, and on their success. Hence he assigned to commerce a rank inferior to that of all other productive labours, and unconsciously made it descend from the eminent rank to which he had elevated it. His error is so much the more to be deplored, as, by stripping commerce of the consideration which is its due, it impedes its success and its prosperity.

Commerce undoubtedly owes its existence to the interchange of the produce which the producers will not or cannot consume : but this interchange is only effected by commerce, by the capital, the talents, and the genius of merchants. Commerce is not only the instrument of the interchange of commodities ; it is its promoter, its instigator, and frequently its sole cause. It is by constantly exhibiting to all producers fresh enjoyments, by exciting their desires, flattering

their taste, or gratifying their appetite, that commerce stimulates them to labour, developes their industry, keeps them in continual activity, and forces them as it were to augment the mass of their productions, and to give them infinite variety and the highest degree of perfection. Far from being the mere instrument of productive labours, and entitled to rank only after them, commerce is the agent of general production, diffuses its benefits by the equivalents which it affords to every producer in exchange for his produce, and deserves to be considered as the most bountiful source of public and private wealth.

It matters little whether the interchange be more favourable to one of the parties than to the other; they both recover, in the equivalent which they receive, whatever the equivalent they give cost them. Were it not for this condition, the interchange would not take place at all, or would soon cease. The interchange between fellow-subjects, as well as between natives and foreigners, can never be detrimental to any one; and the least favourable exchange still yields an agreeable commodity for one that is not so: it is therefore the interest of all nations to protect, to encourage, to favour commerce. It keeps the mass of wealth up even when it does not augment it; and it prevents the decline of national wealth, even when it cannot effect its increase. The obstructions, restraints, and prohibitions, to which commerce has almost always been exposed, with the view to save it from the losses that were apprehended, or to obtain greater benefits from it, are false measures, fatal alike to public and private wealth.



Commerce, however, cannot pervade the whole range of exchanges but by means of an equivalent which suits every one, and which every one prefers to the produce he wishes to exchange. A gold and silver currency is eminently possessed of this prerogative, and it owes it neither to the conventional agreement of mankind nor to the authority of governments, but simply to the valuable qualities of the metals of which it is composed: no other value can supply the place of a metallic currency, because no other commodity possesses the properties which money requires.

When the monetary equivalent is of gold and silver, when its numeric or nominal value approximates as near as possible its commercial value, and when its divisions are in an exact proportion, all the operations of commercial interchange are easy and safe, and commerce may securely indulge in its combinations, speculations, and enterprises.

It is not even necessary that the metallic money should be the actual instrument of the commercial interchange; it is faithfully represented, and its place is frequently successfully supplied by credit. This is the reason why banks, which, after all, do nothing but liquidate and extinguish by compensation the demands of commercial credit, employ so little money in proportion to the vast extent of their operations.

The case is not the same with public and private credit. Both terminate almost all their operations, and cannot extinguish their engagements but with the help of money. Great care ought to be taken not to apply to these two kinds of credit measures which are so beneficial and so well appropriated to commercial credit.

The success of every kind of credit depends also on the freedom of stipulations, and on the facility and certainty of their performance. Both the private and public interest are little consulted, when through a misplaced pity the debtor is favoured to the prejudice of the creditor, and when a failure in public or private engagements is considered as a mere transitory evil without any influence on general prosperity. Whatever injures either commercial or public and private credit, stops the circulation of capital, causes money to be hoarded, paralyses the interchange of the produce of labour, restrains production, and leaves labourers without work. Credit ought not to be placed under the protection of justice or loyalty; it is the interest of public and private wealth which ought to be its safeguard.

Assisted by a gold and silver currency, by credit and banks, commerce encounters no obstruction but the difficulty of taking the direction most beneficial and most favourable to the progress of wealth. Is the preference to be given to the home-trade before the foreign trade of consumption? This is one of the most controverted, and, no doubt, one of the most important questions of political economy.

Reason seems to counsel that interchange of produce which affords most enjoyment to all parties and insures them the most profitable equivalents. The foreign trade of consumption combines these two advantages in a greater degree than the home trade.

The home trade affords to the natives none but ordinary, common, and almost identical productions, little calculated of course to excite desire, to flatter taste, and to gratify fancy. It does not go beyond

those wants, the extent of which is extremely limited, and consequently never can produce wealth, which consists in what is superfluous.

The foreign trade deals less with what is wanted, than with what is superfluous. In exchange for the home-produce, it affords the productions of all countries, which, from their variety, their novelty, and their quantity, prove more attractive, lay stronger hold of the imagination, and promise greater enjoyments; and it is by the continual offer of these enticing commodities that foreign trade keeps all labours in constant activity, favours their progress, obtains a larger produce, increases its surplus, and continually augments the mass of wealth.

The home-trade imparts to the national produce a value but nearly equal to what its production has cost; and as, in all countries, the faculties of labour are almost uniform, because they are limited by the climate, the state of industry, the wisdom of the laws, and the knowledge of government, they give few advantages to certain labours over others. Thus it is not easy for individuals to grow rich, and almost impossible for the state to rise to opulence.

The case is not the same with regard to foreign trade. The national produce is always sold at the highest price, and the foreign produce purchased at the lowest, for this simple reason; the produce of the labour of one country is exported to another, only because it fetches a higher price in the country into which it is imported, than in the country from which it is exported. The foreign trade therefore constantly imparts the greatest possible value to the home-pro-



duce. For an opposite reason, the foreign produce is always bought at a low price, since it is its cheapness that induces it to be imported. From this continual vibration of the balance of foreign trade, private individuals must of course derive great opportunities of making their fortune, and it becomes an inexhaustible source of wealth for the state.

But perhaps I shall be asked, how it happens that the foreign trade sells dear and purchases cheap without any loss accruing to either country? This phenomenon is explained by the nature of things, by the greater or smaller fertility of different climates, by a more or less advanced state of industry, arts, and knowledge, and by the predominant or inferior wisdom of laws and governments, in short, by the concurrence of all the causes which accelerate or retard the progress of civilization in any country. The produce exported from a country, because it is cheap in that country, owes that advantage merely to the circumstance that the climate is more favourable to its production, that industry has made a greater progress, that capitals are cheaper, that the laws are better adapted to the faculties of labour, or that government has adopted better measures for the circulation of its produce abroad and at home. It is to all or to some of these advantages that any country is indebted for the superiority of its produce over that of other countries, and it is to the attention of commerce to purchase only the favoured produce of a country, that all countries are indebted for the advantage of selling dear and purchasing cheap, without any loss accruing to any country. All, on the contrary, are gainers of the

difference between high and low prices, or rather all share in the favours which nature has showered upon various climates, and in the advantages which industry has procured to certain countries; and it is from the very inequality of this share, that all countries derive the most powerful means of wealth and opulence. The calculations of Adam Smith to give the preference to the home before the foreign trade, though ever so ingenious, cannot overturn a theory founded on the nature of things, on the experience of ages, and on the general opinion of all nations and all governments.

But how and by what method ought the foreign trade of consumption to be conducted? by privileged companies, by a colonial monopoly, or by commercial treaties stipulating exclusion, or more or less favour? All these methods, which time and custom have recommended, are not more commendable for it; and it will constantly be true, that the trade which is not carried on upon principles of liberty and equality is the least profitable, and that a nation loses, in the branches which it is forced to abandon, whatever is gained in those that are preferably or exclusively cultivated. The balance of profits is always tending to an equilibrium, or at least it vibrates only in favour of the best and cheapest produce. What pains mankind might have spared themselves, had they known that the freest trade is always the most useful, and that its profits are certain and permanent only as far as they are not a loss to any one! Such is ultimately the true object of the commercial system.

After the produce of the annual labour of every country has been reduced to its true value by its inter-

change with the produce of all countries, it has no longer any influence upon wealth but with regard to its distribution and consumption.

The national produce is distributed to the land-owners in the shape of rents, to the capitalists as profits of stock, and to all those who participate directly or indirectly in labour in the shape of wages.

This distribution is more or less favourable to the progress of public and private wealth, according as stipulations in all private contracts are more or less free, and more or less faithfully performed. All measures that alter the direction of this distribution, that infringe upon its natural proportions, that, either directly or indirectly, raise or lower the rent of land, the profits of stock, and the wages of labour, oppose more or less obstacles to wealth, and may even prove absolutely fatal to its existence.

Independently of the distribution of the produce of labour to the land-owners, the capitalists, and the labourers, a certain portion must be taken from this produce for government and the servants of the state; which portion also has a great influence upon wealth. I have developed its principles, its effects, and its results, in my work on the Public Revenue\*.

The consumption of the produce allotted to each individual by the rents of land, the profits of stock, and the wages of labour, is subject to two laws, which

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\* Should the present work on the various systems of political economy be favourably received in its English dress, no exertion shall be spared to procure the Essay on the Public Revenue which is here alluded to, and to give a faithful translation of it.—T.



are still controverted, but the wisdom and utility of which are obvious.

1. The consumption of the annual produce must be inferior to the total quantity of that produce. Economy ought to save part of it for the support and increase of capital stock, for unforeseen wants, for a progressive population. This saving acts as a safeguard against the blasts of fortune, and is a certain pledge of grandeur and prosperity.

To suppose, with some authors, that consumption is the measure of production, is a fallacy. Undoubtedly, whatever is not consumed, is not re-produced: but all that is consumed, is not always re-produced. If to produce, it were enough to consume, wealth would be the lot of all men and of all nations; for all have the power, and, most assuredly, the will to consume: but as no one can consume any commodity without giving an equivalent for it to the producer, it follows evidently that consumption is re-produced only up to the equivalent which it leaves behind; it therefore is not the necessary and absolute law of production, it is only its uncertain and indeterminate cause, against which there is no possibility of guarding but by limiting and restricting it below production.

This restriction is not so difficult as is commonly supposed; it takes place of itself, and by the sole force of things. Hence luxury, that subject of so many moral, political, and economical contentions, has so little importance in the economical system of modern nations.

In this system, the laborious classes cannot main-

tain themselves without re producing the equivalent of their consumption; they consequently cannot addict themselves to luxury without endangering their existence; and the magnitude of the danger prevents their exposing themselves to it.

The classes that live upon the rents of land and profits of stock cannot easily be ruined by luxury; its greatest excesses attack only a few private fortunes, and gives little concern to national wealth; luxury may even, in some degree, be favourable to national wealth, because it encourages the labouring classes, by increasing their means of labour, economy, and fortune; by admitting them to share in the profits of stock and rents of land, and by affording them an opportunity to rise into the rich and idle classes. This mixture of classes is perhaps not advantageous to certain political systems. Aristocratical states and even some monarchical governments may feel its dangerous effects, and be shaken by it: of this, modern history affords more than one instance; but wealth is no sufferer by it, on the contrary, it may even derive great advantages from such a mixture. It would be interesting to investigate, whether aristocratical and certain monarchical states can do without wealth, resist its influence, or turn it to their safety: but it would require a volume to do justice to the inquiry; and I have but a few lines to add to my observations on the theory of wealth.

But although the consumption of the produce allotted to private individuals is of little consequence to wealth, the case is not the same with regard to that portion of produce which constitutes the public revenue. As

it is taken from private income, and almost entirely consumed without leaving any equivalent after its consumption, it must be proportioned to the surplus of produce left to individuals after their necessary and indispensable consumption ; otherwise it would exhaust private savings, arrest the progressive increase of capitals, render wealth stationary, and perhaps occasion its decline and ruin.

As long as the consumption of public and private revenue does not absorb the totality of the produce of general labour, wealth is progressive, nations prosper, and empires are advancing to the highest degree of power and splendour.

2. Consumption is more or less useful to the progress of wealth, according as it is directed to solid and lasting enjoyments, or to caprices and fancies, which leave no value behind. When, in seeking for the pleasures of life, men have a taste for conveniences and comforts, consumption conveys even to the abodes of mediocrity the advantages and enjoyments of opulence ; the garments and household furniture which have served the rich, serve again the less fortunate classes ; and the enjoyments of wealth are, as it were, communicated to the whole nation. How far it is possible to inspire a nation with that desirable disposition, is not easily ascertained : but nothing can more powerfully contribute to it, than the encouragement given to manufactures more useful than elegant, more within the reach of the multitude than reserved for the opulent classes, more calculated for the wants of all than for the fancy of a few. As wealth is created through the labour of the multitude,



it also derives its greatest means of increase from the conveniencies, from the pleasures, and even from the enjoyments of the multitude.

In the economical system of modern nations, general labour is the spring of wealth, and general economy the only way of increasing the funds and the resources of labour, of developing its power, its faculties, and its genius, and of giving it a constant and unlimited progression. The general interchange of the produce of labour, by affording to the labouring classes new, varied, and inexhaustible enjoyments, stimulates their activity, excites their industry, encourages their efforts, and raises their efforts to the highest degree of energy and intensity; and the extent of a more or less beneficial consumption of the totality of productions extends or narrows the bounds of wealth and opulence.

Wealth, in the modern system of political economy, is the work of all men, of all nations, and, as it were, of the whole human race; the reward of all individual efforts, and the end of private and general ambition. When all are rushing to the same end, the rights of all are respected, the interests of all attended to, and the conveniencies of all consulted. All advance by the side of each other without elbowing, without injuring, without crushing each other. All are benefited by their reciprocal efforts, and all owe their successes to their general co-operation. To this admirable system civilization is indebted for its progress; and when better understood, it will prove its most vigilant safeguard and its firmest support.

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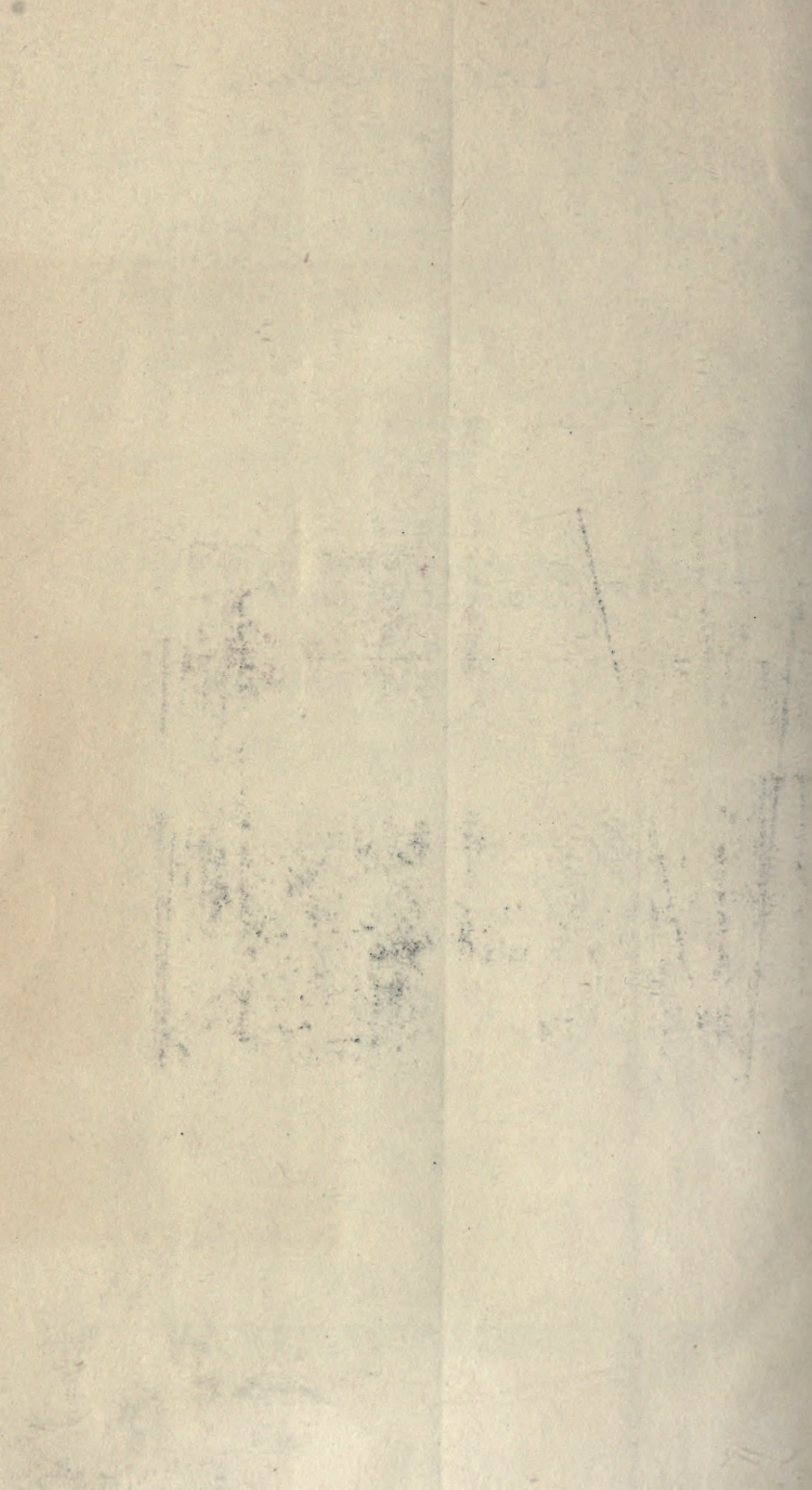
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